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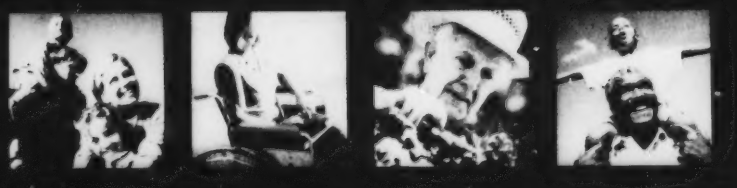

Annual Report of the Canada Pension Plan

Government of Canada / Gouvernement du Canada

Canada

ANNUAL REPORT OF THE CANADA PENSION PLAN

Fiscal Year 1999-2000

ISPB 202-06-01E

Produced by Human Resources Development Canada in collaboration with:
the Department of Finance, Canada Customs and Revenue Agency (CCRA), Public Works and Government Services Canada (PWGSC), and the Office of the Superintendent of Financial Institutions (OSFI)

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General Information
For general information about the Canada Pension Plan, please call free of charge:
1-800-277-9914 (English)
1-800-277-9915 (French)
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Or visit the Government of Canada's Income Security Programs website at:
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Her Excellency
The Governor General of Canada

May it please your Excellency:

We have the pleasure of submitting the Annual Report of the Canada Pension Plan for the fiscal year 1999-2000.

Respectfully,

Paul Martin
Minister of Finance

Jane Stewart
Minister of Human Resources Development Canada

Canada

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This report on the Canada Pension Plan (CPP) consolidates input from all departments providing services on behalf of the Plan: Human Resources Development Canada (HRDC), the Department of Finance, Canada Customs and Revenue Agency (CCRA), Public Works and Government Services Canada (PWGSC), and the Office of the Superintendent of Financial Institutions (OSFI).

EXECUTIVE SUMMARY

The Canada Pension Plan (CPP), in effect since 1966, is a compulsory earnings-based national plan that provides retirement pensions — as well as survivor, disability and death benefits. It is meant to complement, not replace, personal savings and employment pension plans. During fiscal 1999-2000, more than 3.5 million Canadians received approximately $18.8 billion, through about four million benefits. Much of the decline in the low-income rate among Canadian seniors in recent decades has been attributed to the existence of public pensions such as the CPP.

A SUSTAINABLE PLAN

By the 1990s, however, the sustainability of Canada's public pension system had become a concern. It became increasingly obvious that the retirement of the large "baby boom" generation would cause strain on the public pension system.

To address these concerns, the federal and provincial governments, after extensive public consultation, adopted a balanced approach to CPP reform so that the Plan could meet the demands of the coming years. These changes involved increasing CPP contribution rates to build up a larger fund while baby boomers are still in the workforce, investing this fund in the markets at arm's length from government for the best possible rate of return, and slowing the growing cost of benefits.

The Plan continues to benefit from the high rates of return for securities that were bought in the early 1980s, when interest rates were relatively high. In 1999-2000, it also benefited from a high rate of return on the CPP Investment Board's assets, with portfolio returns closely matching the rates of return realized on Canadian and foreign-market-based benchmark indexes during the year. The Board has noted that such high rates of return cannot realistically be anticipated over the long term.

However, the new long-term investment strategy improves the diversification of investments. As equities historically have provided higher returns than bonds, this is expected to produce better returns than the previous strategy, which permitted investments in government bonds only. CPP funds managed by the Investment Board are expected to grow rapidly. The government projects that the Board will have assets of $100 billion under its management within the decade.

The most recent actuarial report, the *Seventeenth Actuarial Report on the CPP*, was tabled in Parliament in December 1998. The report confirmed that the 9.9 percent combined employer-employee contribution rate, which will be reached in 2003, is expected to be sufficient to sustain the Plan as larger numbers of Canadians reach retirement age.

In December 1999, the federal and provincial Finance Ministers completed their first formal review of the Plan's financial state since the implementation of the 1998 changes. Based on the conclusions of the 17th Actuarial Report, and its review by a panel of independent actuaries, they decided that there was no need to change the schedule of contribution rates.

PLAN ADMINISTRATION

The Canada Pension Plan consists of three financial components: the CPP Account, which contains the Plan's operating balance and short-term investments; the CPP Investment Fund, which records the long-term bond investments; and the CPP Investment Board, the independent ("arm's length") body responsible for investing funds not immediately needed to pay benefits in capital markets.

While the CPP is perhaps best known for its retirement pension benefits, it also administers the biggest long-term disability income program in Canada, and the only public plan that provides coverage regardless of the cause of the disability. The CPP paid out $2.6 billion in disability-related benefits to 287,000 contributors and $245 million to 97,000 children of such contributors in 1999-2000. Because of the nature and severity of their medical conditions, most CPP disability beneficiaries are unable to undertake substantially gainful employment. However, a small percentage can return to work when provided with vocational rehabilitation or other support. HRDC provides this support to interested clients, using a case-management approach and working with each beneficiary to develop a customized return-to-work plan. In 1999-2000, the number of people taking advantage of the support services grew from 281 to 476. This growth is expected to continue as more clients become aware of the services available.

Administrative costs for the CPP in 1999-2000 amounted to approximately $315 million, or 1.68 percent of benefits paid; this compares favourably with administrative costs incurred for other large pension plans and individual RRSPs. The total includes the cost of upgrading the technology that makes delivery of such a program possible.

IMPROVED SERVICE DELIVERY

A major information technology renewal initiative was implemented in 1999-2000 to improve the quality, accessibility and usefulness of management information, thus making decision-making easier and more effective. By giving staff online access to contributors' record-of-earnings information, these changes also improved client service and made adjudicating benefits and responding to enquiries faster and easier. CPP systems were upgraded well ahead of the Year 2000 transition, and no problems occurred.

In response to observations in the Auditor General's 1996 report on the Plan suggesting that a more formal and systematic quality monitoring process was needed, HRDC revised its quality assurance process to improve the accuracy, speed, and consistency of decision-making throughout Canada.

The improvements were noted: in 1999, the Auditor General pointed out that "the department has expended considerable effort to improve service to clients and manage the CPP Disability program more effectively."

ENSURING PROGRAM INTEGRITY

The Canada Customs and Revenue Agency (CCRA) is responsible for posting CPP contributions on an individual's account through the T4 process. However, the accurate posting of contributions requires that both surname and Social Insurance Number (SIN) match. Discrepancies in these accounts occur each year, primarily because of employer or contributor errors or variations in reporting surnames, SINs, pensionable earnings and/or contributions. A 1999-2000 CCRA review of discrepancies in over 2.4 million T4 records resulted in $5.8 billion in earnings and $447 million in contributions being added to client records.

HRDC carries out annual reviews of its CPP files to ensure that benefit amounts are being paid correctly. In 1999-2000, staff reviewed a random sample of CPP files selected from the previous payment year (1998). An analysis of the data indicated that the amount paid as a result of error or fraud was about $31.3 million, or approximately 0.2 percent of the total paid out in CPP benefits. Similarly, out

of $2.5 billion in disability benefit payments, some $20 million, or about 0.9 percent, had been paid out in error. These results fall within statistically acceptable error margins. Nevertheless, in an effort to reduce error, five special reviews were initiated in 1999-2000 to look at specific areas of risk to the CPP program. The reviews identified approximately $1.8 million in potential savings to the CPP.

In 1999-2000, HRDC Collection Services recovered $7.4 million in reimbursement for benefit overpayments, and a further $16.8 million from ongoing benefits. The total returned to the CPP was $24.2 million.

IMPROVED COMMUNICATIONS

Information on the CPP is available in a wide variety of formats — in print, on the Internet, in person on the phone or in local offices, and at electronic kiosks in government offices and public buildings. In 1999-2000, a renewed emphasis was placed on community outreach and communications efforts to help Canadians better understand public pensions and the retirement income system, and to encourage them to actively plan and prepare for their own retirement. More personalized contact with clients was given a high priority and led to two significant initiatives:

- Since February 1, 1999, spouses are being informed directly about the provision in the CPP that allows couples to split their accrued pension credits upon the dissolution of their marriage. An information sheet is now included in provincial court mailings of divorce judgment documents. As a result, more than 7,500 applications for credit splitting were approved in 1999-2000.
- More than 2.7 million personalized statements were mailed to CPP contributors between the ages of 18 and 29 in 1999-2000. This was the first time many of this group had received a Statement of Contributions; the information sheet that accompanied the Statement thus introduced them to the Canada Pension Plan and other features of Canada's retirement income system. Starting in 2000-01, personalized Statements of Contributions will be sent to all CPP contributors annually.

To help working Canadians who become disabled understand the Plan and their rights, a number of communications initiatives were undertaken:

- A comprehensive guide to CPP benefits was developed to help partners, such as insurance companies, explain the Plan to their clients.
- A new booklet was published describing the appeals process for Members of Parliament.
- A new plain-language CPP appeals fact sheet was prepared.
- Information packages were provided to members of Parliament and other spokespersons to help them respond to common questions about the benefits.

Better communication with clients and their physicians also helped staff make more informed decisions and helped applicants better understand the decisions made. As a result, more than 90 percent of the applications for disability benefits submitted in 1999-2000 were finalized during the initial phases and the number of requests for reconsiderations declined from 19,200 in 1998-99 to 15,354 in 1999-2000.

Staff also worked closely with the Office of the Commissioner of Review Tribunals (OCRT) and the Pension Appeals Board (PAB) to improve coordination between their offices and to update management practices at the appeals level. As a result, the three organizations have all improved and augmented client communications. A major improvement came with the appointment of a significant number of additional members to the OCRT and the PAB, which allowed appeals to be processed more quickly.

AGREEMENTS

HRDC participates in a number of reimbursement and information-sharing agreements that provide a bridge of financial security for Canadians during the transition to disability benefits. In 1999-2000, there were 12 such agreements in place with provincial governments and five with provincial workers' compensation boards, as well as 34 reimbursement agreements with private insurers.

To protect the pensions of Canadians working in other countries and new Canadians, Canada has pension agreements in place with 38 countries. Other agreements have been signed, but are not yet in force with Morocco, Slovenia, Turkey and Uruguay, and agreements are under negotiation with the Czech Republic, Hungary, Israel, Poland and Slovakia.

PUTTING THE CANADA PENSION PLAN IN CONTEXT

Canada's income security system is one of the best in the world. It is part of the reason Canada has ranked number one on the United Nations' Human Development Index for the last six years. The retirement income system provides a basic income for retired people and for workers and their families in the event of disability or death, and is a safety net that most of us take for granted. But it wasn't always there.

In the early years of our country, taking care of older citizens and those with disabilities was primarily the responsibility of individual families. State relief programs and private charities existed, but the level of assistance was meager and applicants had to submit to means tests.

And there were constitutional and financial barriers to government intervention.

By the end of the First World War, however, the world had changed, and it was getting harder for families to take care of their own. People were more mobile and were living longer — at a time when mechanization was eliminating jobs. Then the introduction of "temporary" income taxes in 1917 allowed the federal government to develop national social programs, culminating in 1927 with Canada's first Old Age Pension, which provided benefits to those in need — but, again, only for those who passed a means test.

The Great Depression and World War II caused people to define what they wanted from their government: a more equitable society, with an expanded system of social security. This led to the introduction of Unemployment Insurance and Family Allowances and, eventually, a universal Old Age Security program.

But retirement for most people still meant a drastically reduced standard of living. The need for a public pension became apparent — one that could be carried from job to job and from province to province. And families still needed protection against the death or incapacitation of their breadwinners.

The answer was the Canada Pension Plan. Established by an act of Parliament in 1965 after a constitutional amendment and implemented in 1966, the CPP is a joint federal/provincial pension and disability plan — based on earnings — that operates throughout Canada. All the provinces except Quebec opted to join the national plan. Quebec chose instead to administer its own complementary plan — the Quebec Pension Plan (QPP). Benefits from either plan are based on pension credits accumulated under both, as if only one plan existed, and the two plans are therefore almost entirely parallel.

The CPP is compulsory (as is the QPP), and most Canadian workers contribute throughout their working lives. It provides retirement pensions — as well as children's, survivor, disability and death benefits — and is meant to complement, not replace, personal savings and employer pension plans. To help protect the pensions of new Canadians and emigrants, Canada has also entered into social security agreements with other nations.

By the 1990s, however, the sustainability of Canada's public pension system had become a concern as the numbers of Canadians nearing retirement age continued to increase. It became increasingly obvious that the retirement of the large "baby boom" generation would cause strain on the public pension system.

And so, in 1998, after extensive public consultation, the federal and provincial governments took a balanced approach to CPP reform so that the Plan could meet the demands of the coming years. These changes involved increasing CPP

contribution rates to build up a larger fund while baby boomers are still in the workforce, investing this fund in the markets at arm's length from government for the best possible rate of return, and slowing the growing cost of benefits.

The strategy is proving successful; the latest actuarial report on the CPP confirms that the scheduled increase in the contribution rate is expected to be sufficient to sustain the Plan in the face of an aging population.

WHO BENEFITS FROM THE CANADA PENSION PLAN?

Everyone who contributes to the Plan and meets the eligibility criteria (see Appendix C for details) benefits from its programs — this covers almost everyone who has been either employed or self-employed in Canada between the ages of 18 and 70. During fiscal 1999-2000, more than 3.5 million Canadians received approximately $18.8 billion in benefits.

These benefits took many forms. Some were retirement pensions for older Canadians. Others were in the form of assistance to people with disabilities that prevented them from working — and to their children. Still others helped the survivors of pensioners who had died — spouses, common-law partners and children. And services under the CPP vocational rehabilitation program made it possible for some Canadians with a disability to go back to earning a regular salary.

There are eligibility requirements for each type of CPP benefit. The amounts payable are calculated based on how much and for how long a contributor has paid into the CPP. But benefits are not paid automatically — each contributor must apply and provide proof of eligibility. Once eligibility is determined, CPP benefits are paid even if the beneficiary also receives income from other sources. Benefits are adjusted in January of each year to reflect increases in the average cost of living, as measured by the Consumer Price Index.

FEDERAL-PROVINCIAL REVIEW

As joint stewards of the CPP, federal and provincial Ministers of Finance are required to review the Plan's financial state every three years and make recommendations as to whether benefits and/or contribution rates should be changed. (Prior to 1997, their review took place every five years.) Changes to the legislation governing the general level of benefits, the rate of contributions or the investment policy can be made only by the Ministers through an act of Parliament. All such changes require the agreement of at least two thirds of the provinces with two thirds of the population, and come into force only after two years' notice, unless all the provinces waive this requirement. Quebec participates in this decision-making formula even though it opted out of the CPP and administers its own plan. This is because the QPP must be implicated in changes to the CPP if the plans are to remain parallel. To keep up to date with the needs of society, the QPP and CPP legislation have been amended several times.

The Ministers of Finance met in December 1999 to carry out the first triennial review after the amendments to the legislation implemented in 1998. Because the actuarial report prepared for the review and a panel of independent actuaries both confirmed that the Plan, as it is currently managed, is expected to be sustainable even with Canada's aging population, the Ministers did not amend the legislated schedule of contribution rates.

The Ministers agreed to make changes on other fronts. Specifically, they agreed to:

- allow the CPP Investment Board to actively invest up to 50 percent of the assets it allocates to domestic equities, as opposed to passively investing the monies in market indices;
- provide the participating provinces with the option of pre-paying some or all of their borrowings from the CPP at market prices, at no cost to the Plan;
- strengthen the governance of the CPP Investment Board by balancing continuity and renewal in membership on the Board; and
- continue to examine improvements to credit-splitting options (the division of CPP credits between partners upon the breakdown of marital or common-law relationships).

FINANCING THE CANADA PENSION PLAN

FINANCIAL SUSTAINABILITY

The Chief Actuary is required under the legislation to produce an actuarial report on the CPP every three years. The federal provincial Finance Ministers use this report for their triennial review.

The most recent actuarial report, the *Seventeenth Actuarial Report on the CPP*, was tabled in Parliament in December 1998. The report confirmed that the 9.9 percent combined employer-employee contribution rate, which will be reached in 2003, is expected to be sufficient to sustain the Plan as larger numbers of Canadians reach retirement age.

The projections of the actuarial report make allowance for future demographic changes, indicating that the proportion of the population over 65 will double in the period between 1997 and 2050. They also allow for continuous improvement in life expectancy and reflect the changes legislated in 1997, including the introduction of "steady-state financing". The Report is available at http://www.osfi-bsif.gc.ca/eng/office/actuarialreports/index.asp. The report of an independent panel of actuaries is also available at this web site.

The Fair Approach to Funding

When it was introduced in 1966, the CPP was designed as a pay-as-you-go plan, with a small reserve. This meant that the benefits paid to one generation were to be paid largely from contributions of younger generations. This approach made sense under the economic, financial and demographic circumstances of the time. The period was characterized by a rapid growth in wages and labour force participation and low rates of return on investments.

Plan administrators were able to keep contributions at a reasonable level while beginning to pay full benefits as early as the mid-1970s. This was important — many of the seniors who received the benefits at that time had been unable to accumulate sufficient retirement savings because of the Great Depression and two world wars.

Demographic and economic developments and changes to benefits in the 30 years that followed resulted in significantly higher costs. When the federal/provincial Finance Ministers

Funding options for pension plans
There are a number of ways to fund pension plans, ranging from pay-as-you-go to full funding. The CPP is a hybrid of the two extremes described below.

The pay-as-you-go approach
Under a pure pay-as-you-go approach, the benefits paid to each generation of current retirees are financed from the contributions of the following generation of contributors. In other words, benefits being paid out at any time are financed entirely from contributions (and/or tax revenues) being made to the plan during the same period by workers and employers (and/or taxpayers). This method is commonly used to finance public pension plans. In a pure pay-as-you-go plan, there is no accumulation of funds.

The full-funding approach
Under a fully funded system, each generation pays for its own benefits. This approach requires contribution rates to be set at levels high enough to generate a reserve fund that will be able to meet all future benefit obligations for that group of retirees, with the contributions invested in financial markets. This method works best when real wage growth is low and rates of return on investments are high. It is typically used for private/employer-sponsored pension plans to safeguard employees in case of business failure.

FINANCING THE CANADA PENSION PLAN

FINANCIAL SUSTAINABILITY

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Plan administrators were able to keep contributions at a reasonable level while beginning to pay full benefits as early as the mid-1970s. This was important — many of the seniors who received the benefits at that time had been unable to accumulate sufficient retirement savings because of the Great Depression and two world wars.

Demographic and economic developments and changes to benefits in the 30 years that followed resulted in significantly higher costs. When the federal/provincial Finance Ministers

began their statutory review of the finances of the CPP in 1996, contribution rates, already legislated to rise to 10.1 percent by 2016, were expected to have to rise again — to 14.2 percent by 2030 — to continue to finance the program on a pay-as-you-go basis.

This would have meant imposing a high financial burden on Canadians in the workforce during those years.

Steady-State Financing

To reduce the burden on future generations, the federal and provincial governments introduced "steady-state" financing in 1998.

Under steady-state financing, the contribution rate increases incrementally (from 5.6 percent in 1996) to 9.9 percent in 2003 and is expected to remain at that rate thereafter. The 9.9 percent long-term contribution rate is the lowest level possible that can be expected to sustain the Plan indefinitely without further increases. [The contribution rate in 2000 was 7.8 percent.]

This approach will generate a level of contributions between 2001 and 2020 that exceeds the benefits paid out every year during that period. Funds not immediately required to pay benefits will be transferred to the arm's length CPP Investment Board (created through a new statute that came into effect in 1998) for investment in financial markets. Over time, this will create a large enough reserve to help pay the growing costs that are expected as more and more baby boomers retire.

After 2020, as the last of the baby-boomers retire, when the benefits paid begin to exceed contributions, revenues from these investments will provide the funds necessary to make up the difference. However, contributions generated by the steady-state rate of 9.9 percent will remain the main source of funding.

It must be noted that the CPP was never intended to be operated as a fully funded plan. Under full funding, benefits could not have been phased in over a 10-year period to provide full CPP pensions to those who retired in the 1970s, 1980s and 1990s. Using this method, full benefits would have been available only when the Plan matured — in other words, when those aged 18 or under in 1966 (when the CPP was created) reached the age of retirement as of 2013. This approach would have also made it more difficult to design a plan with the desirable features the CPP offers (such as the dropout provision for child-rearing, for example).

The steady-state financing approach adopted in 1998 is a cross between full funding and pay-as-you-go. Moving to a full-funding approach would have created intergenerational unfairness because, during the transition, one or more generations of contributors would have had to pay higher contributions than any other generation — they would have had to pay both for the benefits of current retirees and for the development of a reserve to cover their own pensions. A pure pay-as-you-go approach would also have been unfair as it would have meant a sharp increase in the contribution rate in the next three decades.

A partially funded CPP is not only a good balance between the two extreme approaches, but it also complements the other components of the Canadian retirement income system:

- the Old Age Security program, funded on a pay-as-you-go basis by general government revenues, and
- tax-assisted, fully funded employer-sponsored pension plans, Registered Retirement Savings Plans and other private savings.

As a whole, because it has a diversified funding approach, the Canadian retirement income system is less vulnerable to changes in economic and demographic conditions than are systems in countries that use a single funding approach.

FINANCIAL COMPONENTS

A separate account has been established for the CPP in the Accounts of Canada to record the financial elements of the Plan: contributions, interest, pensions, other benefits and administrative expenditures. The account also records the amounts transferred to or received from both the CPP Investment Fund and the CPP Investment Board. Spending authority is limited to the balance in the account.

In 1999-2000 — as part of a Government-wide transition — the CPP adopted the accrual basis of accounting for revenues and expenses. This will allow administrators to obtain a more detailed financial picture and to match revenue and expenditures more accurately to the year in which they occur. In anticipation of the transition, a complete set of financial statements, including a statement of net assets and changes in net assets was prepared (see Appendix A).

The balance represents contributions and investment income accumulated since the Plan's inception in 1966, minus benefits and expenditures from the same period.

As of March 31, 2000, the balance held in the CPP was approximately $41.3 billion (equal to 2.2 years' benefits). These funds provide a reserve to shore up the plan in the event of lower-than-expected contributions or higher-than-expected benefit payments. With the shift to the steady-state financing approach, the reserve will increase from the equivalent of two to about five years' benefits over the next two decades. With a five-year reserve, the Plan will be funded to about 20 percent.

CPP ACCOUNT

The CPP Account consists of an operating balance and a number of short-term investments. The operating balance is maintained at a level designed to cover three months' worth of benefit payments and administrative charges. These funds are not invested in provincial securities or by the CPP Investment Board; rather, they earn interest based on the average daily balance of the reserve. The interest paid on these funds is calculated by averaging the unweighted average yields at tender on three-month Treasury Bills during the month the interest is paid, then subtracting one-eighth of one percent.

During 1999-2000, the operating balance earned an average interest rate of 4.56 percent, or $266 million. Short-term investments had an average interest rate of 4.71 percent and earned $49 million.

CPP INVESTMENT FUND

Before the 1998 changes, CPP funds not immediately needed to pay benefits were invested only in long-term bonds of the provincial and territorial governments, provincial Crown agencies, and the Government of Canada. The CPP Investment Fund will retain investments in these securities until they have matured and are redeemed. The balance in the Investment Fund as at March 31, 2000, was $30.3 billion, down slightly from $30.8 billion in March 1999. All securities held were invested for 20-year terms.

Interest

In 1999-2000, the Investment Fund earned about $3.5 billion in interest, which was deposited in the CPP. This compares with $3.6 billion earned in the previous 12 months. (Appendix A summarizes the status of the Investment Fund as of March 31, 2000.)

Maturing securities are redeemed as they come due, with the principal and any outstanding interest reimbursed by the provinces and territories. In 1999-2000, $1.9 billion worth of bonds matured and were redeemed; of those, $1.3 billion worth were renewed for additional 20-year terms.

Rates of Return

The Investment Fund continues to benefit from the high rates of return for securities that were bought in the early 1980s, when interest rates were relatively high. Since these securities are long-term 20-year government bonds, bearing a weighted average annual nominal return of 11.27 percent (or 8.27 percent after taking inflation into account), the Fund's average nominal rate of return will remain above 10 percent for the next several years. For this reason, the short-term rate of return, based on these investments, will exceed the Fund's expected long-term rate of return of seven percent, or four percent after inflation. This long-term rate of return is based on investments being made today that have lower returns. However, as equities historically have provided higher returns than bonds, even if more volatile, in the long term the new strategy is expected to produce better returns than the previous one, which permitted investments in government bonds only and therefore prevented diversification of investments.

Transition to the New Investment Policy

Historically, CPP funds were loaned to the federal, provincial and territorial governments for 20-year terms. New funds that are not immediately needed to pay benefits and Investment Fund securities that are redeemed are now transferred to the CPP Investment Board to be invested in the capital markets. As a transitional measure, all provinces and territories can roll over their CPP borrowings at maturity for one more 20-year term if they wish, at the same rate of interest as they pay on other market borrowings.

During the federal/provincial review completed in December 1999, a decision was made to amend the CPP legislation to give the provinces and territories the option of prepaying some or all of their CPP borrowings at market prices, at no cost to the Plan. Once implemented, this measure can assist provinces that are paying down their debts.

CPP INVESTMENT BOARD

The Canada Pension Plan Investment Board (CPPIB) was established in 1998 to invest and manage funds not immediately required to pay CPP contributors and beneficiaries. The Board operates "at arm's length" from government. Its mandate is to invest funds in such a way as to maximize returns without incurring undue risk and to safeguard the financial position of the Canada Pension Plan and its ability to meet its obligations.

A 12-member board of directors, chaired by Gail Cook-Bennett, manages the Investment Board. (The first directors were appointed in October 1998 on the recommendation of the Minister of Finance, following consultations with the provincial ministers.) Its small staff is responsible for the investment of CPP funds, the measurement of the Board's investment performance, and the management of its relationships with third parties. The CPPIB's first permanent President and Chief Executive Officer, John A. MacNaughton, took office on September 7, 1999.

During fiscal year 1999-2000, the Investment Board:

- developed a strategy and business plan (set out in its Statement of Mandate in the second annual report of the CPPIB);

- adopted the model of a "virtual corporation" (a small team of investment professionals at the Board working with external experts to manage its assets and increase their long-term value) to fulfil its legislated objective of investing CPP funds in the best interests of plan members;
- introduced an evaluation process to examine the performance of the board of directors and its committees each year;
- implemented an evaluation process to assess the performance of the President and Chief Executive Officer;
- issued four quarterly financial reports and, in June 2000, published its annual report for the reporting period;
- activated a web site in June 1999 (http://www.cppib.ca) to provide public access to current information on Board policies and financial results; and
- invested $1.9 billion that was transferred from the CPP during the course of the year.

A Formal Investment Policy

The Investment Board, as governed by its legislation — the *Canada Pension Plan Investment Board Act* and *Regulations* — is responsible for developing its own investment policy, while operating under the same general investment rules that apply to most other federal and provincial pension plans. In the future, the Board may invest in bonds to achieve a diversified asset mix as the equities under its management grow and the non-marketable securities in the Investment Fund mature. The Board is required to ensure that a portion of the funds it chooses to allocate to bonds are provincial/territorial government bonds. As of January 2001, this percentage will be consistent with the proportion of bond holdings allocated to provincial and municipal bonds by Canadian pension funds generally. In addition, the Board must adhere to the foreign property limit on its foreign investments. The ceiling on permitted foreign investments was 20 percent during the 1999-2000 period. It will increase to 30 percent effective January 1, 2001.

During its start-up phase, the Board was required by law to substantially replicate the composition of one or more broad market indexes in its allocations to domestic equity investments. At the CPP Triennial Review in December 1999, however, federal and provincial Finance Ministers agreed to relax this passive investment requirement and give the Board full discretion for the investment of up to half the funds it allocates to domestic equities. (The Regulation was amended in August 2000 to implement this decision.)

Under the legislation, the Board is required to develop a formal investment policy and to review it at least annually. The key elements of its policy during the period ending March 31, 2000, were as follows:

- To diversify the combined asset base of the Canada Pension Plan (the Investment Fund and the Board's investment portfolio), all funds were invested in equities.
- Eighty percent of the Board's assets were invested domestically and 20 percent internationally in index funds.
- The Canadian stock index fund mirrored the Toronto Stock Exchange 300 Composite Index.
- Assets were invested abroad in two foreign stock index funds — the United States Standard and Poor's 500 Index and the Morgan Stanley Capital International EAFE (Europe, Australia and New Zealand, and Far East) Index.

Investment Activities

The Investment Board received $1.9 billion from the Canada Pension Plan for the period of April 1, 1999, to March 31, 2000, compared with $11.9 million in the preceding fiscal year. The market value of its investments as at March 31, 2000, was about $2.4 billion, which included approximately $460 million of investment income (after expenses).

The CPPIB earned a 40.1 percent rate of return on its assets during fiscal 1999-2000, with portfolio returns closely matching the rates of return realized on Canadian and foreign-market-based benchmark indexes during the year. The CPP funds managed by the Investment Board are expected to grow rapidly as revenues from contributions increase and bonds in the Investment Fund mature. The government projects that the Board will have assets of $100 billion under its management within the decade.

The Investment Board plans to complete the recruitment of five senior executives during 2000; the executive team will be responsible for all aspects of the Board's investment and business performance. With the increase to the foreign property limit and the relaxation of the passive investment restriction, the Board will have the scope and flexibility to pursue a diversified investment strategy should it choose to do so.

The CPP Investment Board is accountable to Canada Pension Plan contributors and beneficiaries. In January 2001, the Board will hold public meetings across Canada to give Canadians the opportunity to ask questions about its policies and performance.

Benefits and Expenditures

The number of CPP benefits has increased steadily over the past decade, as have expenditures required to pay for the increased claims. Table 1 shows the yearly increases since 1996-97.

RETIREMENT BENEFITS — FACTS AND FIGURES

Retirement pensions represent 64.6 percent of the total number of CPP benefits paid and 68.6 percent of the total benefit dollars paid out by the CPP in 1999-2000.

The amount of each contributor's pension depends on how much and how long he/she has contributed and at what age he/she begins to draw the benefits. Table 2 shows the maximum monthly amount that could be received in CPP benefits during the years ending March 31, 1999, and March 31, 2000, by people who began receiving their pension at the age of 65. The average amount actually paid in benefits in the month of March in those two years is provided in the final columns, broken down to show the average amount drawn by those whose benefits started at 65 and the average amount drawn by all pensioners during that month (including those who began drawing their pension at a younger age).

Table 3 shows the total number and amount of benefits paid, by fiscal year, and indicates what proportion of these were new benefits.

TABLE 1 — BENEFITS AND EXPENDITURES BY FISCAL YEAR

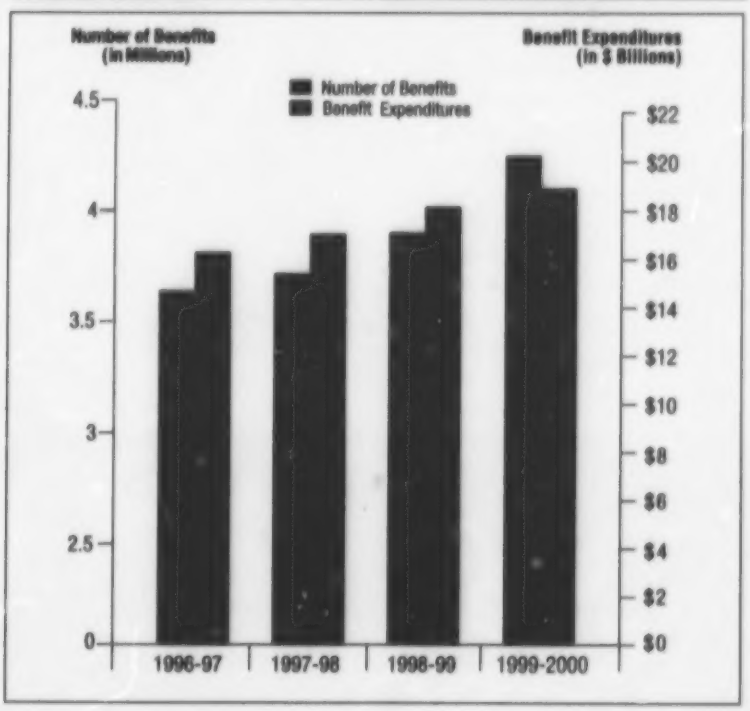
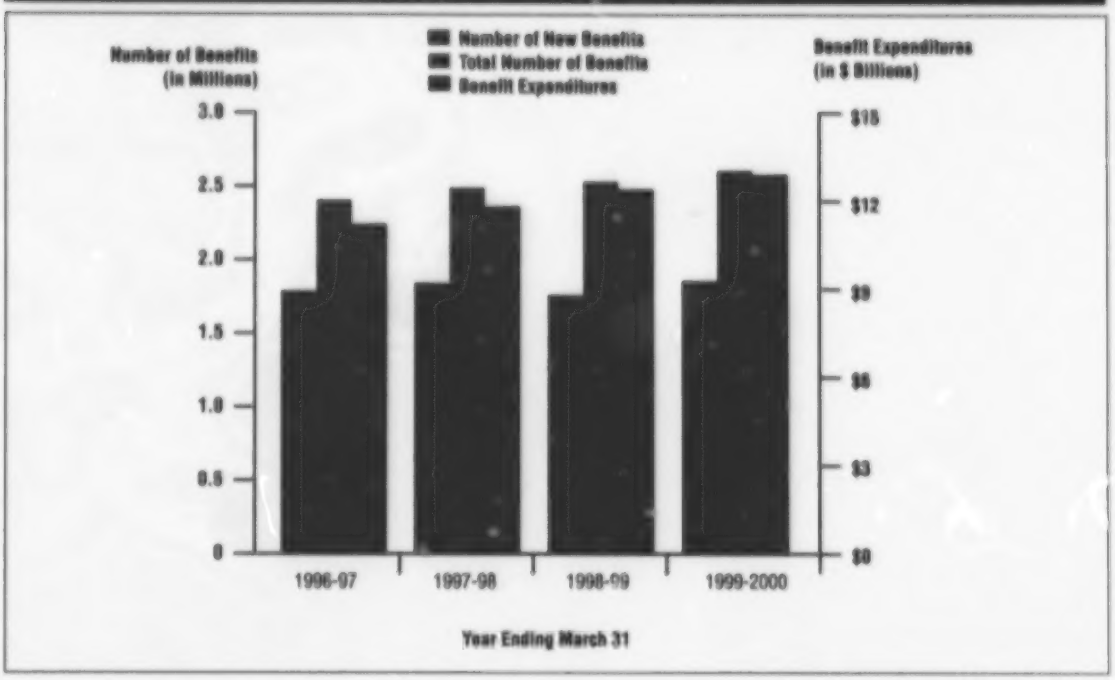


TABLE 4 — MAXIMUM AND AVERAGE MONTHLY RETIREMENT PENSION AMOUNTS

Benefits beginning at	Maximum amount payable ($)		Average amount paid ($)	
	1999	2000	March 1999	March 2000
Age 65	751.67	762.92	418.74	424.85
All ages			412.38	417.68

TABLE 5 — RETIREMENT BENEFITS AND EXPENDITURES



DISABILITY BENEFITS — FACTS AND FIGURES

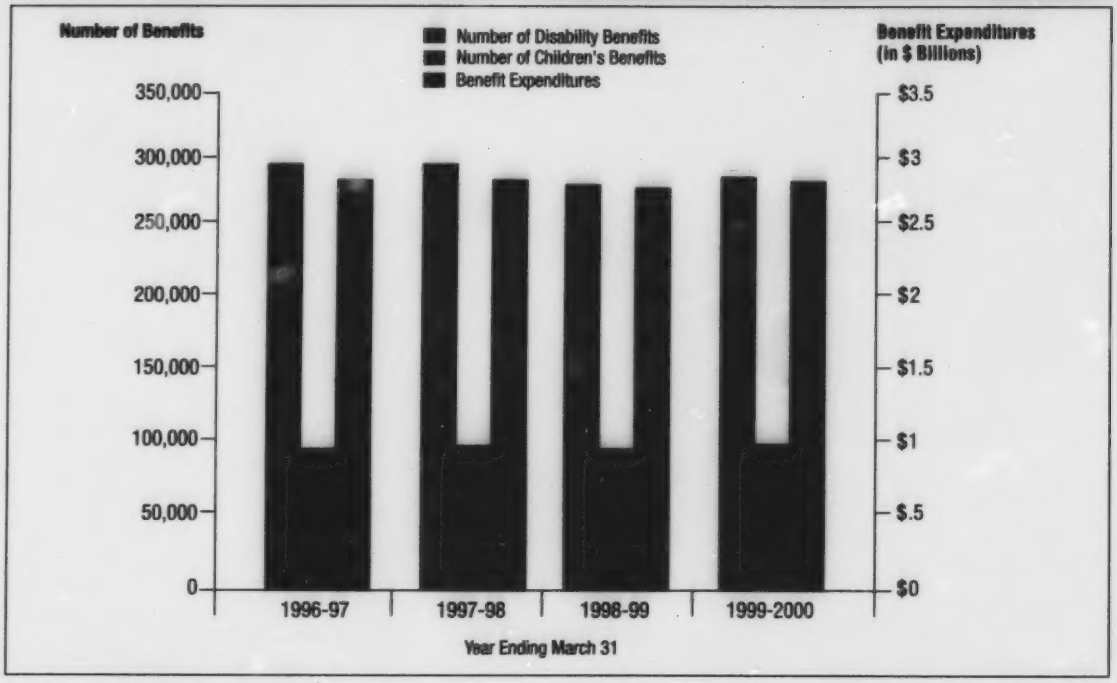
The maximum monthly disability benefit amounts payable for 1999 and 2000 are presented in Table 4, below, with the actual average amount paid in March of each year. The amounts are differentiated by type of benefit, since the amount paid in children's benefits is a flat rate.

Disability benefits, paid to eligible contributors and their children, represent 9.5 percent of the total number of CPP benefits paid and 14.9 percent of the total benefit dollars paid out by the CPP in 1999-2000. Table 5 illustrates the number of disability benefits paid each year from 1996-97 to 1999-2000, broken down by type of benefit, and shows actual expenditures for those years.

TABLE 4 — MAXIMUM AND AVERAGE MONTHLY DISABILITY BENEFIT AMOUNTS

Type of benefit	Maximum amount payable ($)		Average amount paid ($)	
	1999	2000	March 1999	March 2000
Disability	903.55	917.43	676.91	685.39
Children's (flat-rate)	171.33	174.07	171.33	174.07

TABLE 5 — DISABILITY BENEFITS AND EXPENDITURES



SURVIVOR BENEFITS — FACTS AND FIGURES

Survivor benefits, paid to the surviving spouse of the contributor and his/her children, represent 23.2 percent of the total number of CPP benefits paid and 15.3 percent of the total benefit dollars paid out by the CPP in 1999-2000.

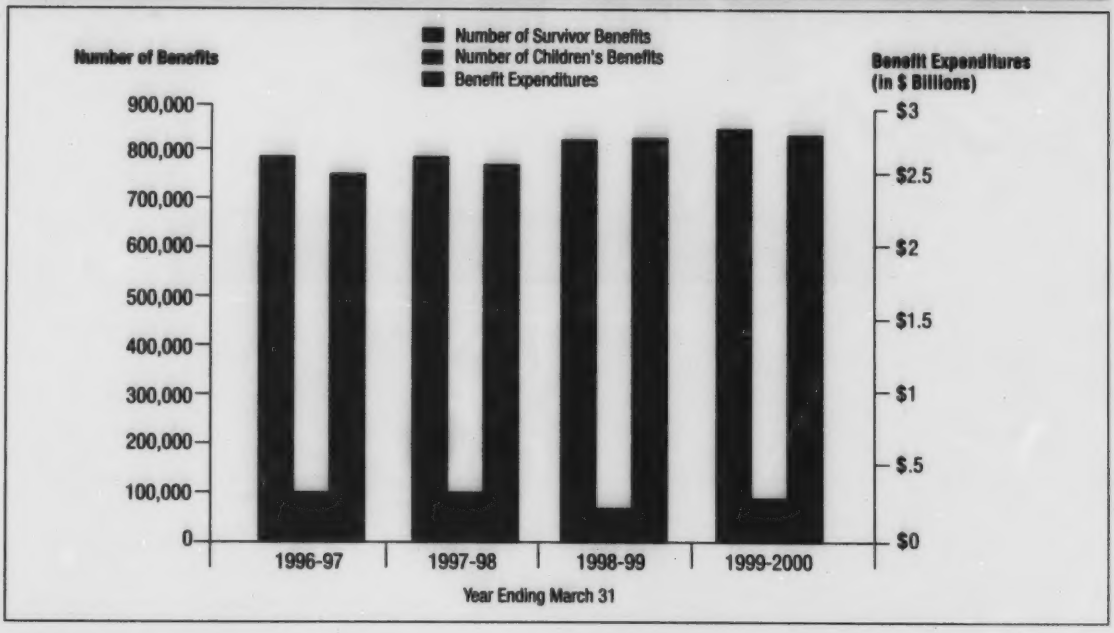
The maximum monthly survivor benefit amounts payable for 1999 and 2000 are presented in Table 6, below, with the actual average amount paid in March of each year. The amounts are differentiated by type of benefit.

Table 7 illustrates the number of survivor benefits paid each year from 1996-97 to 1999-2000, broken down by type of benefit, and shows actual expenditures for those years.

TABLE 6 — MAXIMUM AND AVERAGE MONTHLY SURVIVOR BENEFIT AMOUNTS

Type of survivor benefit	Maximum amount payable ($)		Average amount paid ($)	
	1999	2000	March 1999	March 2000
Spouse over 65	414.46	420.80	307.38	311.68
Spouse under 65	451.00	457.75	239.84	247.51
Children's (flat-rate)	171.33	174.07	171.33	174.07
Survivor/Disability	903.55	917.43	833.84	839.64
Survivor/Retirement	751.67	762.92	557.06	569.40
Death	2,500.00	2,500.00	2,162.48	2,158.34

TABLE 7 — SURVIVOR AND CHILDREN'S BENEFITS AND EXPENDITURES



DEATH BENEFIT — FACTS AND FIGURES

Death benefits represent 2.6 percent of the total number of CPP benefits paid and 1.2 percent of the total benefit dollars paid out by the CPP in 1999-2000.

Table 8 illustrates the number of death benefits paid each year from 1996-97 to 1999-2000 and shows actual expenditures for those years.

TABLE 8 DEATH BENEFITS AND EXPENDITURES

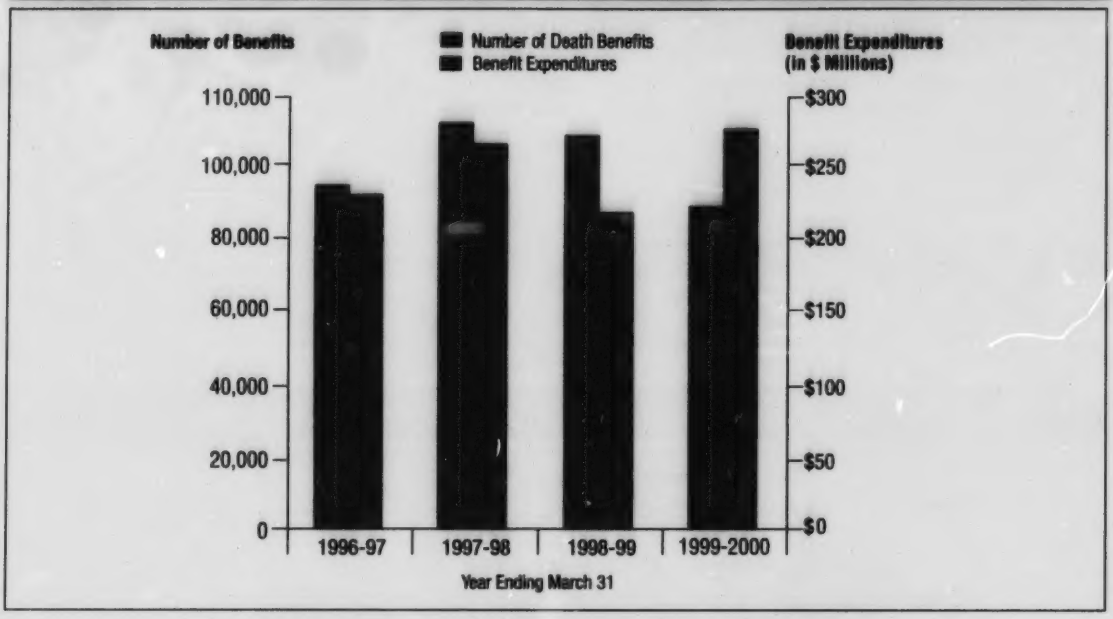


TABLE 9 MINIMUM AND MAXIMUM PENSIONABLE EARNINGS AMOUNTS

	Minimum ($)	Maximum ($)
1998	3,500	36,900
1999	3,500	37,400
2000	3,500	37,600

CONTRIBUTIONS

The CPP is financed through mandatory contributions from employees, employers and self-employed persons, as well as from investment income derived from CPP investments. Approximately 12.5 million Canadian workers over the age of 18 currently contribute to the CPP.

Contributions are paid on the portion of a person's earnings that falls between specified minimum and maximum amounts, as identified in Table 9. The maximum amount is linked to the average Canadian industrial wage and is adjusted annually. The minimum remains constant at $3,500.

Thus, if a person earns $3,500 or less in a calendar year, neither that person nor his/her employer will make contributions to the CPP — and no contribution is required on earnings above the maximum amount. Similarly, no contributions are required once a contributor reaches the age of 70 or if he/she is receiving a CPP retirement pension or a CPP disability benefit.

The contribution rates for the year 2000 are 3.9 percent for employees and 3.9 percent for employers. Persons who are self-employed pay both portions, for a total of 7.8 percent. The combined rate for 2001 will be 8.6 percent.

CPP Disability Benefits

The Canada Pension Plan includes the largest long-term disability income program in Canada. In 1999-2000, the CPP paid $2.6 billion in benefits to 287,000 contributors with disabilities and $245 million in benefits to 97,000 children of such contributors. More than 60,000 new applications for disability benefits were received in 1999-2000.

The primary role of the CPP disability benefit is to replace a portion of the earnings of contributors who cannot work because of a disability that is both severe and prolonged. The CPP is the only public plan in Canada that provides coverage regardless of the cause of disability. A second important role is to help beneficiaries to return to work if and when they are able to do so.

There is a delicate balance to be achieved in managing a program of this size and complexity. It is important that clients be treated fairly and with sensitivity. The CPP recognizes this and continues to make a determined effort to deliver a high-quality program that respectfully meets the changing needs of applicants and beneficiaries, while ensuring that the legislation is respected and that funds are managed responsibly.

In 1999-2000, CPP administrators adopted a plan to establish a client-centred service delivery approach. Once implemented, this approach will provide support throughout an individual's claim period. This supports the federal government's stated objective to enable Canadians to participate fully in the workplace and in the community.

The following priorities were identified as necessary to the achievement of [illegible] in the delivery of CPP disability [illegible]:

- to reduce waiting tim[illegible]itial levels of the applicati[illegible];
- to improve written c[illegible] example, by replacing [illegible] legalistic language with [illegible]);
- to expand vocational r[illegible]efforts to help clients become more independent;
- to develop a quality assurance program to ensure consistent and accurate decision-making; and
- to develop a client-centred service delivery model to better adapt services to client needs.

In 1999-2000, HRDC continued to move some functions to the regions, bringing decision-making and vocational rehabilitation services closer to beneficiaries. The department also reduced processing times at all levels of decision-making and tested new approaches designed to improve personal contact. Efforts were made to improve communications with clients and their physicians, for example, and to expand the CPP vocational rehabilitation program.

APPLICATION PROCESSING AND DECISION-MAKING

HRDC is responsible for the initial decision, or ruling, on a disability application and, when applicable, for the reconsideration of that decision. Staff understand the impact of delays on the lives of those who seek assistance, and make every effort to get a decision for clients as quickly as possible. At the same time, they try to avoid making decisions prematurely if there is a chance that more information might be available that could lead to a more informed decision on the case.

Currently, more than 90 percent of all applications for CPP disability benefits are resolved [illegible]adjudication and reconsi[illegible]d the department has reduced [illegible]imes for both types of actions. As at March 2000, the national average speed of service for initial applications was 61 days (the service standard is 62 days), and for reconsiderations was 66 days (service standard: 71 days). (Internal performance is measured on a statistical sampling of recent files.)

However, the length of time it takes to reach a final decision on an individual case depends on the complexity of the applicant's medical condition and the need for additional information. It is the responsibility of applicants and their physicians to provide this information, and processing times can vary significantly as a result.

Dispute Resolution Pilot Project

In an effort to improve the management of the CPP disability caseload, reduce costs, and increase client satisfaction and staff effectiveness, new dispute resolution techniques were tried last year in three regional sites: St. John's, Newfoundland; Chatham, Ontario; and Winnipeg, Manitoba.

Financial support for this project came from the Department of Justice Dispute Resolution Fund, which was established to encourage departments to try this approach. The goal is to reduce litigation by developing and using mechanisms that prevent or resolve disputes in a way that is acceptable to all parties. Implementing these mechanisms requires that departments train staff in dispute resolution techniques and incorporate the appropriate processes into their legislation. HRDC tested these techniques at both the initial application and the reconsideration phases of the disability application process to identify how best to prevent or resolve disputes prior to entering the formal appeals process.

The regions varied their approaches slightly to allow for a fuller assessment of the effectiveness of the various mechanisms. Typically, departmental staff would contact the client before opening the file to explain the process and provide all the necessary information. All clients were also contacted by telephone at the time the decision was taken on their case to make sure they understood the decision and its implications. If the application had been denied, the client was given information on the appeal process or on alternative income supports. If the application was granted, the client was given information on vocational rehabilitation and reassessment programs (if appropriate).

The pilot project was very successful, and clients expressed satisfaction with the increased level of communication achieved with these techniques. The "best practices" derived from this pilot project will be phased in over the next two years.

Improving the Appeals Process

As part of an initiative started in 1998-99 to review the entire appeals process, additional efforts were made to increase the efficiency of the system. Staff worked closely with the Office of the Commissioner of Review Tribunals and the Pension Appeals Board to improve coordination between their offices and to update management practices.

As a result, HRDC, the Office of the Commissioner of Review Tribunals and the Pension Appeals Board have all improved and augmented client communications to better inform clients about the appeals process. A major improvement came with the appointment of a significant number of additional members to the Office of the Commissioner of Review Tribunals and the Pension Appeals Board, which allowed appeals to be processed more quickly.

COMMUNICATING MORE CLEARLY AND MORE OFTEN

Improving communication was made a priority in 1999-2000. To help Canadians understand the Plan, a number of initiatives were undertaken. For example:

- A comprehensive guide to CPP benefits was produced to help partners, such as insurance companies, explain the Plan to their clients.

- A new booklet describing the appeals process for Members of Parliament was published.
- A new CPP appeals fact sheet was produced to make the process easy to understand.
- Information packages were developed to help Members of Parliament and other spokespersons respond to common questions about the benefits.

In December 1999, HRDC surveyed some 800 recipients of CPP disability benefits to determine their level of knowledge about the program and to find out how communication could be improved. Clients said they would like to receive information about CPP benefits on a more regular basis, preferably by mail. As a result, concrete steps are being taken to improve communication in these areas.

Beneficiaries will receive more frequent communications on the plan to improve their understanding of both their rights and their responsibilities. Work has also started on a "literacy and plain language" strategy, targeting the disability application kit as a top priority for revision. Letters to clients are also being re-formulated.

The department also conducted a random survey of 200 general practitioners who had treated a CPP disability client within the past two years. Results showed that while understanding of CPP regulations and benefits continues to improve, it has not reached desirable levels among all physicians. A guide will be developed in 2000-01 to provide information of specific use to physicians in treating their patients.

EXPANDING VOCATIONAL REHABILITATION

Because of the nature and severity of their medical conditions, most CPP disability beneficiaries are unable to undertake substantially gainful employment. However, a small percentage of beneficiaries have the potential to return to work when provided with vocational rehabilitation or other support. It is widely recognized that timely and personalized vocational rehabilitation services play a major role in improving quality of life by re-integrating persons with disabilities into mainstream activities.

HRDC has introduced vocational rehabilitation assistance, using a case-management approach and working with each beneficiary to develop a customized return-to-work plan. Participation is voluntary, and individual plans can include services such as vocational assessment and testing, skills upgrading and job search assistance. Local private-sector vocational rehabilitation specialists deliver these specialized services to the beneficiary in his or her community.

In 1999-2000, the number of people taking advantage of the support services grew from 281 to 476 (see Table 10). This growth is expected to continue as more clients become aware of the services available.

TABLE 10 VOCATIONAL REHABILITATION

Fiscal year	Number of recipients	Percentage of recipients who regained capacity to work	Savings estimated over three years (in $ millions)
1998-1999	281	44%	$1.7
1999-2000	476	40%	$2.4

The success of vocational rehabilitation has also encouraged the department to look for other ways to assist and encourage disability benefit recipients who may be ready to return to work. A March 2000 survey of recent vocational rehabilitation clients confirmed that the service was appreciated by those who participated.

IMPROVING SERVICE TO CLIENTS

In his 1996 report, the Auditor General observed that, even though there were numerous mechanisms in place to monitor the quality of decisions, the CPP disability benefits administration did not have a formal and systematic quality monitoring process. In response, HRDC improved its quality assurance process to improve the accuracy and speed of decision-making for disability benefits cases throughout Canada.

HRDC assesses four administrative functions relating to this process: initial decisions, reconsiderations, reassessments and appeals. By identifying the nature and extent of inconsistencies in the decision-making process, the department helped to improve conformity and consistency with CPP legislation and policies.

The improvements were noted: in 1999, the Auditor General pointed out that "the department has expended considerable effort to improve service to clients and manage the CPP Disability program more effectively. It took action in each area discussed in our 1996 chapter. The department completed implementation of certain recommendations and revised the applicable administrative policies and practices."

Responsibilities of Recipients of Disability Benefits

CPP disability benefits are not a permanent entitlement — if recipients regain the capacity to work, they are no longer eligible for benefits. While some medical conditions are progressive and terminal, others may improve over time, or the person may learn to work with the disability.

For these reasons, beneficiaries are responsible for informing HRDC of their changed status — and a client's file may be periodically reassessed to ensure that the eligibility criteria continue to be met. Where indications of potential improvements in a beneficiary's medical condition exist, a date is set for re-evaluation of his or her capacity to work.

Reassessments are also initiated if information is received that indicates the beneficiary has already returned to work or has regained the capacity to work. Such information may be received directly from the client, from third parties, or from Employment Insurance or the Canada Customs and Revenue Agency (when earnings information is received).

Reassessment constitutes a vital component of HRDC's commitment to protect the integrity of the Canada Pension Plan on behalf of all contributors and beneficiaries and help to ensure that only those who are still eligible continue to receive benefits. Funds returned to the CPP as a result of reassessment of eligibility during 1999-2000 resulted in program savings of $20 million. See Table 11.

TABLE II — REASSESSMENTS OF DISABILITY CASES

Year ending March 31	Number of decisions	Number of benefits cancelled	Percentage of benefits cancelled	Annual savings in benefit payouts	Overpayments identified
1997-1998	11,833	2,985	25.2%	$27,601,848	$23,368,933
1998-1999	10,744	2,687	25.0%	$25,273,476	$10,124,228
1999-2000	9,943*	2,083	20.9%	$20,077,752	$5,234,845

* The number of reassessments completed in 1999-2000 was down in comparison to 1998-99, because reassessment staff had to be reassigned to assist with the processing of new applications in order to prevent backlogs.

To ensure the best possible administration of the disability benefits program and to protect against fraud and abuse, the department reviewed a random sample of benefit files selected from the 1998 payment year.

Thirty-eight of the 9,943 CPP disability benefit cases reviewed were referred to the RCMP for criminal investigation relating to suspected fraud. Their investigation resulted in the recovery of approximately $537,000 in 1999-2000 from disability benefit fraud cases. Of the 1,149 third-party complaints investigated, 12 percent, or 134 cases, resulted in changes to the client's benefit entitlement assessment.

CLIENT-CENTRED SERVICE DELIVERY

In response to client feedback, HRDC is developing a more personalized approach to the way it provides services to applicants and to beneficiaries of disability benefits. The focus will be on earlier and more personal contact with people applying for benefits, more timely and continuous follow-up with those receiving benefits, and more active support to beneficiaries preparing to return to work or making the transition to retirement benefits. The department will also provide "pathfinding" assistance to those who apply but are not eligible for disability benefits, putting them in touch with other programs and services in their area that may be able to assist.

A number of activities to improve service delivery have been identified and will be tested or fully implemented in 2000-2001. HRDC will:

- work with private long-term disability insurance providers toward joint screening of applicants and the improvement of referral mechanisms;
- improve links between the CPP and the Employment Insurance Branch to provide seamless service to clients;
- help older clients prepare for transition to retirement benefits; and
- improve access to comprehensive information related to returning to work.

MANAGING THE CANADA PENSION PLAN

ADMINISTRATIVE COSTS

The cost of administering the CPP is shared among several federal government organizations: Human Resources Development Canada (HRDC), Canada Customs and Revenue Agency (CCRA), Public Works and Government Services Canada (PWGSC), the Office of the Superintendent of Financial Institutions (OSFI), and the Department of Finance. These organizations receive funds to administer the CPP based on the costing principles approved by Treasury Board and included in the Memorandum of Understanding established with each department. To be acceptable, all administrative charges must have a causal relationship to the CPP and must be traceable.

In 1999-2000, it cost approximately $315 million to administer the CPP, with HRDC accounting for the largest portion — $242 million (see Table 12). CCRA required approximately $58 million and PWGSC, $14 million, for services. The OSFI and the Department of Finance incurred costs of $1.2 million and $346,000 respectively. Since the administration costs of the CPPIB are drawn from CPPIB investment income, they are reported in that organization's annual report. This facilitates the arm's-length administration of the Board. In 1999-2000, the CPPIB reported $1.3 million in operating expenses.

Comparison to Other Pension Plans

CPP administrative expenses represent 1.68 percent of the $18.8 billion in benefits paid (1.65 percent of total expenditures). This ratio compares very favourably with that of other pension plans. Administrative costs for large pension plans in the private sector for example were, on average, equal to five percent of expenditures.

CPP administrative costs also compare favourably with those of RRSPs. Under the new investment policy, CPP investment costs are expected to be as low as those of other large pension plans that have annual investment costs

Table 12 — DISTRIBUTION OF ADMINISTRATIVE COSTS FOR 1999-2000

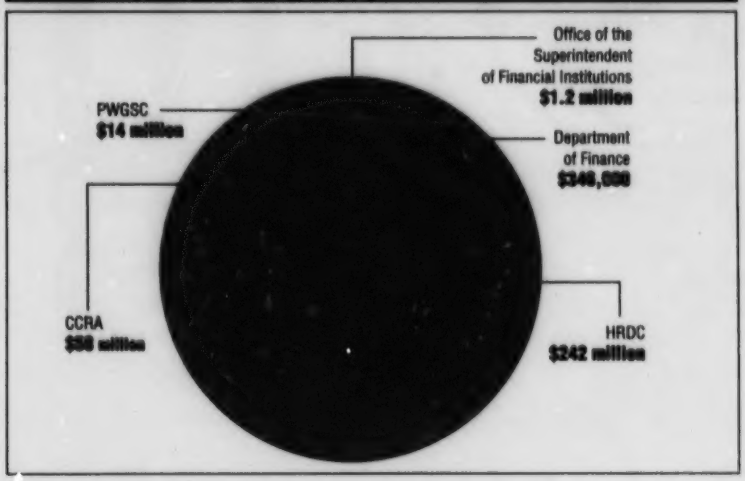


TABLE 13 — CPP ADMINISTRATIVE COSTS 1997-98 TO 1999-2000

	Expenditures (in $ thousands)		
Department/Agency	**1997-98**	**1998-99**	**1999-2000**
Human Resources Development Canada	203,436	205,929	241,328*
Canada Customs and Revenue Agency	74,800	75,753	58,193
Public Works and Government Services Canada	17,864	14,352	14,094
Office of the Superintendent of Financial Institutions	1,100	1,022	1,181
Finance Canada	500	530	346
Total	297,700	303,586	315,142

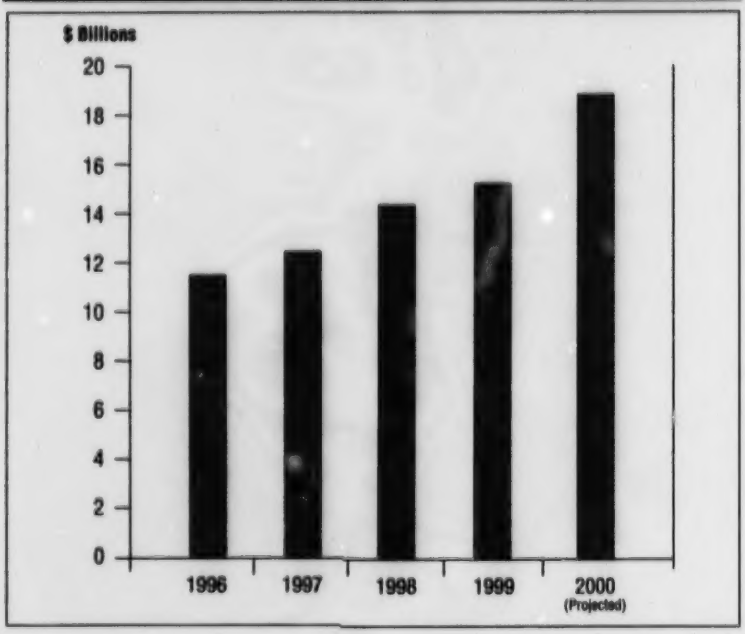
*The increase in HRDC's administrative costs between 1998-99 and 1999-2000 was due to a number of factors: in particular, the requirement for extensive system upgrades. Moreover, the shift to the accrual system of accounting makes the difference in cost appear greater — since the accounts are prepared differently than they were during previous years, they cannot be compared directly.

of 0.1 percent of assets. This is much less than the 2 to 3.5 percent that is commonly charged for individual RRSPs. Table 13 presents the CPP's administrative expenditures for the last three years.

COLLECTING AND RECORDING CONTRIBUTIONS

All CPP contributions are remitted to the Canada Customs and Revenue Agency (CCRA). Approximately 94 percent of the total come from employers and employees and the remaining six percent from self-employed Canadians. Table 14 shows the amount collected annually by CCRA.

TABLE 14 — CPP CONTRIBUTIONS COLLECTED



Besides collecting contributions, CCRA also assesses and verifies earnings and contributions, advises employers and employees of their rights and responsibilities, conducts audits, and reconciles reports and T4s submitted. CCRA audits include both a review of the CPP deductions and remittances and a verification of income tax and employment insurance deduction requirements.

Although most employers remit the proper contribution amounts on behalf of their employees, some fail to comply, usually because of cash flow problems. To verify that contribution requirements are being met, CCRA applies a compliance and enforcement process that can vary from a computerized data match to an on-site audit.

Employers may request on-site assistance for clarification of payroll withholding requirements. Or employees may seek advice if they feel their employer is contravening a related tax law. Compliance by employers is generally good once CCRA explains how to properly deduct, remit and report employee contributions.

There are approximately 1.3 million existing employer accounts. During 1999-2000, CCRA conducted 53,427 audits, focusing on files with irregularities. Of these, 29,127 resulted in money being repaid to the CPP. Table 15 summarizes audit activity.

Rulings and Appeals

CCRA tax service offices and tax centres issue rulings on questions such as whether or not a worker is engaged in pensionable employment and whether specific earnings require CPP contributions. CCRA's goal is to complete each ruling within 30 days of receipt. In 1999-2000, CCRA made 20,009 rulings for CPP purposes.

Under the Canada Pension Plan, individuals have the right to appeal rulings and assessments. Approximately 12 percent of CPP rulings and assessments issued are the result of appeals and are administered by independent appeals staff in CCRA tax service offices. For issues that remain unresolved, recourse is provided through the judicial process, ranging from the Tax Court to the Supreme Court of Canada.

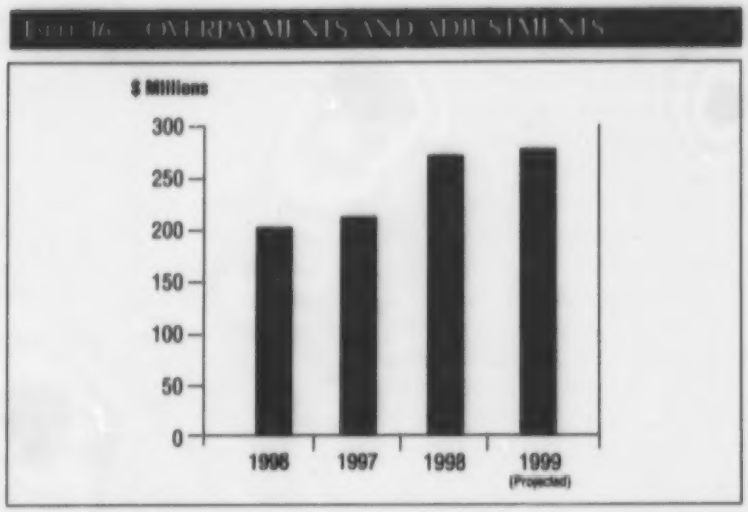
Overpayments and Adjustments

Overpayments and adjustments to contributions occur when an individual is employed in two or more positions during the year and is making contributions for each job. In these cases, CCRA issues a refund after year end once the employee's income tax return is filed, since contributions are paid only on earnings up to the yearly maximum amount regardless of the number of jobs held during the year.

TABLE 15 — AUDIT ACTIVITY AND RESULTS — EMPLOYER ACCOUNTS
(Period Ending March 31)

	1998–99	1999–2000	2000-01 (projected)
Number of audits completed	50,683	53,427	57,222
Audits resulting in assessments for CPP	29,154 (58%)	29,127 (55%)	31,472 (55%)

For the year ending December 1999, an estimated $267.6 million in CPP contribution overpayments was refunded. Adjustments were also made on CPP contributions by self-employed individuals. Table 16 presents the overpayments and adjustments refunded, by year.



Keeping Contribution Records and Ensuring Accuracy

Between 1964 and the end of March 2000, some 35.4 million Social Insurance Numbers (SIN) were issued. Of these, only 24.5 million had some form of earnings and/or contributions recorded. The others have no pensionable earnings — the cardholders may be unemployed or they may be young children whose parents have obtained a SIN for them in order to open an education savings plan, for example.

CCRA has the legislated authority to post CPP contributions on an individual's account through the T4 process. The accurate posting of contributions requires that both surname and SIN match. Discrepancies in these accounts each year are primarily due to employer or contributor errors in reporting surnames, Social Insurance Numbers, pensionable earnings and/or contributions. In 1999-2000, CCRA reviewed such discrepancies in over 2.4 million T4 records. This resulted in $5.8 billion in earnings and $447 million in contributions being added to client records.

HRDC is working in partnership with the Quebec Pension Board (QPB), Canada Customs and Revenue Agency (CCRA), and the Ministère du Revenu du Québec (MRQ) to identify contributors whose surname and/or SIN on their T4 does not match an account. Discrepancies are primarily due to name changes as a result of marriage or divorce; although the name and SIN on the T4 are correct, they do not match those recorded on the account. Once the information has been correctly matched, the contributions can be assigned to the proper account. In 1999-2000, this joint initiative resulted in the placement of approximately $1 million in unidentified client contributions in the proper CPP contributor's accounts.

REACHING OUT TO CANADIANS

A number of recent polls done by financial institutions and social research firms suggest Canadians are not prepared for retirement and that they do not fully understand the CPP and how it complements the other elements of retirement planning. Trends in saving, investment and demographics in Canada indicate that Canadians

need more information to help them prepare for their retirement years — in fact, 83 percent of Canadians polled in an EKOS survey commissioned by HRDC said they wanted the federal government to provide basic, objective information about the entire retirement income system in Canada, including private investments.

HRDC has instituted a number of initiatives designed to "reach out" into the community to improve awareness and knowledge of the CPP and to demonstrate how the Plan fits into Canadians' overall retirement planning. Outreach activities include public information sessions in local communities with a wide variety of partners in both the public and the private sector. HRDC continues to develop and maintain partnerships with educators, financial/investment planners, community leaders, parliamentarians, health care providers, band councils, and other government bodies.

During 1999-2000, departmental staff spoke directly with over 398,000 Canadians and distributed over 1.2 million information packages. They also formed 1,829 partnerships with private and public sector organizations and provided 387 training sessions for these groups.

Other outreach activities undertaken recently include a pilot CPP course for Nova Scotia high school students; expanded partnerships with funeral home directors to help Canadians understand when and how to apply for CPP survivor, orphan and death benefits; and published information on legislated benefits for same-gender couples.

Outreach initiatives currently under development include:

- a training/public information campaign to support the Information on the Retirement Income System initiative; and
- a multi-media product in collaboration with the Canadian Museum of Civilization, outlining the historical development of CPP/OAS from Confederation to the present.

Personalized Statements of Contributions

Canadians have access to a broad spectrum of CPP information that is continually being improved by refining and updating communications products and modes of delivery. CPP information is made available on the Internet, via direct mail, in the media, through partnerships with third-party specialists in the finance and pension fields and through a number of informative publications provided free of charge. Information on the CPP is also available on the CCRA website (http://www.ccra-adrc.gc.ca).

Many CPP contributors obtained information about their personal CPP account directly, through a Statement of Contributions they received in the mail. In 1999-2000, more than 2.7 million personalized statements were mailed to CPP contributors between the ages of 18 and 29. This was the first time many of this group

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Taking the program to the people

In March 2000, 12 Income Security Programs employees from the Edmonton office headed to Canada's North with their suitcases full of information and applications for the Canada Pension Plan and Old Age Security programs. They visited 12 communities to ensure that the people in this remote area were aware of the programs that they might be eligible to apply for. For most of the communities, this was the first visit from the CPP.

With the help of a translator, the staff were able to help more than 500 people who were eligible for benefits but had not applied.

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had received a Statement of Contributions; the insert that accompanied the Statement thus introduced them to the Canada Pension Plan.

In recognition of 1999's designation as "International Year of Older Persons", HRDC actively sought out those individuals 65 years and older who had contributed to the CPP but had never applied for a retirement pension. This special mailing of 55,800 Statements of Contributions included a letter inviting these contributors to apply, an application form, and a list of offices where they could send their applications. As of March 31, 2000, the department received 7,373 new benefit applications from this group. These new beneficiaries received a total of approximately $8.5 million in retroactive payments and an average monthly pension of $134.36 during the year.

As of 2000-01, a Statement of Contributions will be sent annually to all CPP contributors between the ages of 18 and 70. Application forms for a Statement of Contributions can also be downloaded from the CPP web site at http://www.hrdc-drhc.gc.ca/isp.

Splitting Pension Credits

Many CPP contributors are unaware that the CPP allows them to split their accrued pension credits between spouses or partners upon the dissolution of their marriage or common-law relationship. The credit-splitting provision is mandatory when there is a divorce, except in Saskatchewan, Quebec and British Columbia, where a couple can choose to opt out through a spousal agreement. Credit splitting has been available to separated spouses, upon application, since 1987.

Over the past eight years, various methods have been used to deliver credit-splitting information to divorced couples. Since February 1, 1999, spouses are being informed about the provision through an information sheet that provincial courts include in mailings of divorce judgment documents. As a result, more than 7,500 applications for credit splitting were approved in 1999-2000.

Processing Benefits

HRDC is committed to providing high quality service. This commitment is reflected in the department's service standards:

- Clients are entitled to courteous and considerate treatment and complete and accurate information about their entitlements and obligations.
- Staff aim to keep the waiting time to meet a client service officer to a minimum. Waiting times will be posted.
- Clients are entitled to receive their first CPP payment within 35 days of a positive decision on their application.

CPP services are offered in person, by telephone and by mail. Information about the CPP is also available on the Internet and at approximately 5,200 electronic self-service kiosks. Some 3,700 of these are located in HRDC offices, and another 1,500 can be found in such locations as satellite offices, partnership organizations, community centres and malls.

Internet Services: Information about CPP programs and services is available online 24 hours a day. HRDC's site for Income Security Programs (http://www.hrdc-drhc.gc.ca/isp) provides current, citizen-centred information in an accessible format. Users can download and print key forms, obtain quick and accurate information, and send general enquiries to staff by e-mail.

Further information can also be found through CCRA publications, on the CCRA web site (www.ccra-adrc.gc.ca) or on the Department of Finance web site (www.fin.gc.ca).

Mail Service: HRDC has eleven mail-processing centres, located throughout Canada. These centres handle new applications, as well as various documents and enquiries. Staff there also review new applications and make decisions on the majority of new applications. In 1999-2000, staff processed disability applications (which are complex and require medical information) within an average 61 days. Other types of applications were processed within 29 days (see Table 17).

Table 17 – SPEED OF PROCESSING NEW APPLICATIONS

National speed of service measures	Objective	1999-2000 National Average
Number of working days to process initial CPP applications (excluding disability applications)	28*	29
Number of working days to process initial CPP disability applications	62	61

* The speed of service objective for CPP initial application processing was modified from 16 to 28 working days. The definition of the process now includes computer processing for payment, and is based on 100% automated census data and client consultations. The 16-day objective was based only on manual sampling.

Table 18 – CLIENT SERVICE VOLUMES BY SERVICE TYPE

	1997–1998	1998–1999	1999-2000	% change 1998-99 to 1999-2000
In-person interviews[1]	630,279	574,672	572,509	0.38% (–)
Telephone calls received by a service delivery agent[1]	3,424,789	3,281,561	3,370,272	2.70% (+)
New CPP applications processed	371,364	352,108	388,818[2]	10.43% (+)
New DSB applications adjudicated	70,109	64,049	59,538	7.04% (–)
Appeal decisions processed (HRDC and arm's-length appeal bodies)	34,913	34,054	30,346	10.89% (–)

[1] This data represents the total of CPP and OAS interviews/telephone calls received. Since these frequently cover both programs, CPP data is not available in isolation.

[2] This is based on 100% automated census data.

In-Person Service: There are 320 Human Resources Client Centres (HRCCs) across Canada. These centres handle enquiries, accept documents and provide detailed benefit and process information. Table 18 gives a summary of the volume of services provided over the past three years.

Telephone Service: Ten HRDC telephone centres located throughout Canada handle client enquiries and accept requests for applications. Clients are encouraged to do their business by telephone (volumes reported in Table 18 indicate that this is the type of service most prefer). Table 19 presents more detailed information pertaining to telephone service. High call volumes in the latter weeks of the last quarter of 1999-2000 because of a combination of seasonal pressure (T4 period) and technical difficulties led to a decline in "accessibility performance" as tele-centres scrambled to meet the increased demand. To improve accessibility, the tele-centres took steps to improve capacity, and at the same time adjusted processes to improve service quality. Telephone agents received feedback and training on call handling, accuracy of information and telephone skills. Web-based reference material was also made available to tele-centre agents, allowing them to increase their knowledge in specific areas and improve the overall consistency of responses.

Issuing Payments

Although client accounts are maintained by HRDC, it is Public Works and Government Services Canada (PWGSC) that issues payment. In 1999-2000, PWGSC issued 40.4 million payments on behalf of the CPP. This compares to 39.9 million in 1998-99 and 39.4 million in 1997-98. During the 1999-2000 fiscal year, 32.5 million payments were issued as direct deposit payments (80.3 percent) compared with 32 million in 1998-99. Direct deposit is, by far, the preferred method of payment.

Table 19 — Telephone Service Statistics

	1997-98	1998-99	1999-2000
Percent of clients accessing the HRDC telephone system on the first attempt[1]	98.0%	98.4%	98.7%
Percent of clients served by an HRDC service agent within 180 seconds of placing their call[2]	92.1%	94.9%	88.6%[3]
Average time spent waiting in a telephone queue for the call to be answered	35 sec.	37 sec.	56 sec.
Average time that clients speak with an HRDC service agent	241 sec.	235 sec.	228 sec.

[1] The data in this table is based on CPP and OAS totals. Speed of service does not vary between programs.
[2] Objective for Access I and II is 95%
[3] This result is lower than expected because of performance shortfalls during the hectic Guaranteed Income Supplement (GIS) renewal period.

APPEALING A DECISION

Individuals who are dissatisfied with a decision made on an application for CPP benefits have three opportunities to appeal the decision. Almost 95 percent of all appeals concern an application for disability benefits.

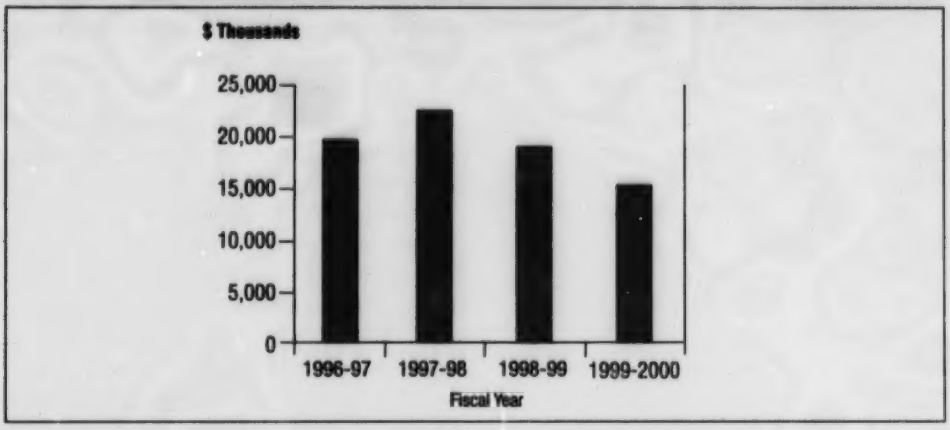
Appeals to the Minister of HRDC

The first level of appeal involves a request to the Minister of HRDC for a "reconsideration" or administrative review of a decision concerning a benefit or a division of pension credits. A request must be made within 90 days of receiving the initial decision. A departmental adjudicator who was not involved in the initial decision then carries out a review of the file on behalf of the Minister. The number of requests for reconsiderations declined from 19,200 in 1998-99 to 15,354 in 1999-2000 (see Table 20).

During that same period (between April 1998 and March 2000), the number of benefits awarded at appeal decreased from 28 to 23 percent (see Table 21).

Appeals to the Office of the Commissioner of Review Tribunals

A person who is not satisfied with the decision made at the departmental reconsideration level can appeal to a Review Tribunal. A Review Tribunal is an independent, impartial tribunal made up of three people chosen by the



	1997–98	1998–99	1999-2000
First-level appeals received	22,349	19,200	15,354
Disability benefits granted	7,144	6,317	3,787
Disability benefits denied	19,034	16,135	12,638
Percentage of benefits awarded at appeal	27%	28%	23%

TABLE 22 — REVIEW TRIBUNAL — SECOND LEVEL APPEALS

Description	1997–98	1998–99	1999–2000	Percentage change
Second-level appeals on hand April 1		8,885	7,811	12.0% (–)
Second-level appeals received during the fiscal year		9,700	8,913	8.1% (–)
Appeals settled/withdrawn	N/A	1,952	2,647	35.6% (+)
Appeals to be heard*	16,490	16,633	14,077	15.4% (–)
Appeals finalized	7,605	8,822	9,340	5.9% (+)
Appeals heard but not finalized	320	617	888	43.9% (+)
Appeals on hand March 31	8,885	7,811	4,737	39.4% (–)

* Does not include re-hearings under subsection 84(2) and appeals withdrawn at hearing.

Commissioner of Review Tribunals from a panel of 100 to 400 part-time members who are appointed by Order-in-Council. The chairperson is always a lawyer. In appeals involving disability benefits (over 95 percent of the total), one of the other members must be a health care professional. Hearings are informal, closed to the public, and usually held in or near the appellant's community. Table 22 provides an overview of the workload of Review Tribunals during the past three years.

During fiscal 1999-2000, more hearings were held than new appeals received. More than 11,000 appeals were finalized as a result of a Review Tribunal decision or settlement or because the appeal was withdrawn without the need for a hearing. Appeals remaining at year-end have been reduced considerably and mostly represent appeals for which hearings have been delayed at the request of appellants or for which the documentation has not yet been received from the department.

Appeals to the Pension Appeals Board

The Pension Appeals Board is a quasi-judicial tribunal that operates at arm's length from HRDC. It is the final opportunity for appeal under the Canada Pension Plan. Members of the Pension Appeals Board are federal or provincial court judges or former judges appointed by the Governor in Council. To deal with the increasing workload, 25 additional members were recently appointed, bringing the membership to 63, including the Chairman and Vice-Chairman. Hearings are not automatic at this level, as they are at the first two levels of appeal. Claimants (or the Minister of HRDC) must request "leave to appeal". Of the over 3,000 applications received in 1999-2000, 99 percent concern CPP disability benefits; only a small number came from the Minister.

Appeals are heard by the Board as *"de novo"* (new) hearings and take place in centres across Canada. Written reasons for decisions are provided for every case and leading decisions are published annually. Decisions of the Board,

TABLE 23 — PENSION APPEALS BOARD — THIRD LEVEL APPEALS

Description	1996–97	1997–98	1998–99	1999–2000
Appeals carried over	1,068	1,984	4,060	3,856
Applications received	1,800	3,106	2,915	3,392
Decisions rendered	884	1,030	3,119	3,291
Pending at end of fiscal year	1,984	4,060	3,856	3,957

except as provided in sections 18 and 28 of the *Federal Court Act*, are final and binding for the purposes of the Canada Pension Plan.

The Board is also exploring the use of dispute resolution services.

The increasing workload arising from the volume of new applications has led to extensive efforts to expand the Board in order to better serve claimants.

Table 23 provides an overview of the Board's work in progress.

PARTNERSHIPS PROTECT BENEFICIARIES

CANADA'S INTERNATIONAL SOCIAL SECURITY AGREEMENTS

Many Canadians live and work abroad. Many others move here after having contributed to a pension plan in another country. This can affect the amount of their pension later in life. Canada's social security system has been designed to protect this pension income through a number of international agreements. The basic objectives of these agreements are:

- to reduce or eliminate citizenship-based restrictions that prevent Canadians from receiving pensions from another country;
- to permit continuity of social security coverage when a person is temporarily working in another country, and prevent situations where a person must contribute to the social security programs of two countries for the same work;
- to make it easier to become eligible for benefits by adding together creditable periods under the schemes of two or more countries; and
- to reduce or eliminate restrictions on the payment of pensions abroad.

As of March 31, 2000, agreements were in force with 38 countries; agreements with Morocco, Slovenia, Turkey and Uruguay had been signed, but were not yet in force. Other agreements were under negotiation with the Czech Republic, Hungary, Israel, Poland and Slovakia. Table 24 shows the number and amount of benefits paid under social security agreements for 1998 and 1999.

In 1998, the most recent year for which information is available, the total amount of foreign pension benefits that came into Canada from other countries exceeded $1.6 billion. By contrast, about $354 million was paid by Canada in OAS and CPP benefits to persons living outside Canada. Altogether, six times as much money came into Canada in benefits through its social security agreements as was paid out.

Coverage Under International Agreements

In accordance with Canada's social security agreements with many countries, CCRA issues "certificates of coverage" to confirm that a particular worker is covered under Canada's social security laws for a particular employment or activity. These certificates can be used to claim an exemption from contributions under the laws of the other country for that employment. Each agreement provides for a maximum initial period of coverage (usually three years). However, an "extension of coverage" may be granted, at the request of the employer and with the approval of the host country.

In 1999-2000, CCRA issued 2,454 certificates and 356 extensions. Foreign employers without a place of business in Canada may apply to have coverage under the CPP for

TABLE 24—CPP BENEFITS UNDER SOCIAL SECURITY AGREEMENTS

Calendar year	Number of benefits paid in month of December	Total benefits paid throughout year
1998	4,604	$13,298,000
1999	4,752	$13,842,000

employment they provide in Canada. To help interested parties understand their rights and obligations, CCRA's tax service offices offer seminars on various aspects of the CPP.

PARTNERSHIP WITH THE QUEBEC PENSION PLAN (QPP)

As noted earlier, the Canada Pension Plan and the Quebec Pension Plan are complementary plans. Since Quebec opted to administer its own pension plan, people who work in Quebec contribute to the QPP rather than the CPP. Administrators of both plans meet regularly to discuss issues of common concern to the more than 1.8 million Canadians who have contributed to both plans (called dual contributors), including some 181,000 current recipients of benefits. To make the process as seamless as possible, the CPP and QPP maintain 10 information-sharing agreements that support the efficient administration and processing of common client files.

In 1999-2000, HRDC and QPP administrators continued to work cooperatively, developing a strategy for 2000-2001 that will further address the potential for duplication, thus reducing the risk of payment errors.

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In 1999-2000, HRDC and QPP administrators continued to work cooperatively, developing a strategy for 2000-2001 that will further address the potential for duplication, thus reducing the risk of payment errors.

Going the extra mile

A 75-year old woman contacted HRDC's International Benefits and Foreign Affairs division during the year, explaining she had recently lost her husband and that her income had been drastically reduced as a result. She asked whether she might be entitled to receive a small pension from the U.S., based on her periods of work there during the 1950s. She could not recall whether she had contributed to the U.S. Social Security scheme at that time.

HRDC contacted the Social Security Office in Baltimore to find a record of the client's work history in the U.S. At first they found nothing, but after an extensive investigation and numerous conversations with the client, they found that she had been married to an American citizen who had passed away almost forty years before. With the death of her second husband, she was entitled to have her U.S. widow's pension re-instated. The HRDC employee delivered the necessary application forms to the client's home and helped her complete them. She was awarded a benefit from the U.S. of more than $1,000 a month, paid retroactively to the time of her second husband's death.

OTHER AGREEMENTS

HRDC continues to seek opportunities to enter into reimbursement and information-sharing agreements with other government bodies and private insurers.

Reimbursement agreements allow the CPP to reimburse all or a part of a beneficiary's retroactive CPP payments to other organizations to cover the costs those organizations incurred while paying that person during a period when he or she was eligible for a CPP benefit but was not receiving it. Provincial authorities can now be reimbursed for social assistance payments they made to persons who were subsequently found eligible for CPP benefits.

In 1999-2000, there were 12 such agreements in place with provincial/territorial governments. These agreements protect CPP contributors from getting into untenable situations with either their insurance company or a provincial social assistance agency. They also ensure that these organizations will continue to pay CPP contributors the benefits they are due even when eligibility for disability benefits is pending. This provides a bridge of financial security for Canadians during the transition to disability benefits.

Five similar agreements with provincial workers' compensation boards are in effect, and negotiations are currently underway with another two boards. Four of the five agreements allow reimbursement for retroactive portions of disability benefits.

The CPP also has 34 reimbursement agreements with private insurers. This is fewer than the number of agreements reported in previous years because of a number of recent insurance corporation mergers.

Supporting the Plan

CPP computer systems were upgraded well ahead of the Year 2000 transition, and no problems occurred.

Another major systems-related initiative in 1999 gave HRDC staff online access to contributors' record-of-earnings information. This access improved client service and made benefit adjudication and responding to enquiries easier and faster.

Two major improvements to the CPP computer system were initiated during 1999-2000:

- New data storage and retrieval features were added to improve support to external partners, such as provincial social services departments and workers' compensation boards.
- A new access feature will give HRDC frontline staff access to a client's full payment history online. This will improve speed of service to clients and reduce lost time.

With the Y2K project successfully completed, efforts in 2000-01 will focus on catching up on necessary maintenance activities and continuing to modernize delivery systems.

Ensuring Program Integrity

HRDC carries out annual reviews of CPP retirement, disability and survivor accounts to ensure that benefit amounts are being paid correctly. In 1999-2000, staff reviewed a random sample of CPP files selected from the previous payment year (1998).

An analysis of the data indicated that the amount paid as a result of error or fraud was about $31.3 million, or approximately 0.2 percent of the total paid out in CPP benefits. The result falls within the statistically acceptable error rate.

Nevertheless, in an effort to reduce error, five special reviews were initiated in 1999-2000 to look at specific areas of risk to the CPP program.

The reviews identified approximately $1.8 million in potential savings to the CPP. Table 25 summarizes the preliminary results.

Table 25: Summary of CPP Reviews in 1999-2000

Identified beneficiaries between the ages of 18 and 25 who were receiving a children's benefit but were no longer in full-time attendance at a recognized educational institution, and were thus ineligible.	$949,000
Measured the extent of error in the application of the Child Rearing Dropout Provision.	$273,000
Identified recipients of CPP survivor benefits who were receiving more than one survivor benefit, or were also receiving a retirement or disability pension that had not been assessed in the calculation of the survivor benefit.	$121,000
Identified CPP beneficiaries who were listed as deceased on CCRA records (data based on 1998 and previous tax years) but whose files were still active in CPP records and whose benefits continued to be paid.	$456,400
Identified survivor benefit recipients under the age of 45 who were receiving full benefits to which they were not entitled because they had no dependent children and were not disabled according to the CPP definition.	$32,400
Total	**$1,831,800**

Fraud Investigations

In 1999-2000, the CPP referred 54 cases of suspected fraud to the RCMP for criminal investigation, with a total potential saving to the CPP of close to $1.2 million. Thirty-eight of these cases were related to the CPP disability benefit. In the same fiscal year, 26 people were convicted under the Criminal Code of Canada of defrauding the CPP of various amounts. Approximately $597,305 was recovered in 1999-2000 as a result of fraud investigations.

Accounts Receivable

In 1999-2000, HRDC Collection Services recovered $7.4 million in reimbursement for benefit overpayments, and a further $16.8 million was withheld from ongoing benefits. The total returned to the CPP was $24.2 million.

Changes to Legislation and Regulations

To modernize and streamline the CPP legislation, a number of changes were implemented in 1999-2000:

- The amended Regulations associated with Bill C-2, *An Act to establish the CPP Investment Board and to amend the CPP and the OAS Act and to make consequential amendments to other Acts* (Chapter 40 of the Statutes of Canada 1997) came into effect on April 22, 1999. The Regulations were amended to better reflect the intent of the Act.
- Following proposals by the Standing Joint Committee for the Scrutiny of Regulations, minor changes were made to the *Canada Pension Plan Regulations* (effective March 30, 2000) to ensure ongoing regulatory consistency with the Plan.
- Changes to the CPP Regulations under Part I were also implemented, effective January 1, 2000, to reflect the increase in the contribution rate and in the year's maximum pensionable earnings.

Charter Challenges

- The CPP has been the subject of several challenges under the *Canadian Charter of Rights and Freedoms*, and a number are currently under judicial review. During 1999-2000, one such challenge was resolved: on March 25, 1999, the Supreme Court of Canada rendered a unanimous decision that the CPP does not discriminate against widows and widowers under the age of 45 on the basis of age.

LOOKING TO THE FUTURE

The changes that the federal and provincial governments have made to the CPP are expected to be sufficient to allow it to meet the increased financial demands and the service delivery challenges that will result from the increases in the number of beneficiaries expected in the coming years.

In 1999-2000, the CPP made benefit payments to approximately 3.5 million Canadians. The Plan receives over 250,000 new applications each year for various benefits, and the numbers are expected to rise dramatically. Service delivery in this environment requires significant effort to assure accuracy and timeliness.

To meet the significant increase in demand for CPP services and benefits, the government has made the updating of the support systems that help deliver the Plan a priority, beginning with an information technology renewal plan to upgrade and replace existing computer systems and the technology that supports them.

The plan will evolve over the next five to seven years and will support better management decisions by improving the information available to management, clients and staff through a faster and more up-to-date technological infrastructure and revitalized systems.

It will also ensure that the objectives of the federal government's Government On-Line (GOL) initiative are met (the commitment to make the Government of Canada the most electronically connected government in the world to its citizens by 2004 and to provide Canadians with electronic access to federal information and services). Long-term GOL initiatives include the implementation of a web-based client system that will permit a wider range of enquiries and client transactions to take place online. In this context, the importance of strengthening our technological framework is clear, especially since the fastest growing group of Internet users is the senior population.

The CPP will be reviewing its programs and regulations to ensure that they also support the new electronic service environment, with particular emphasis on protecting personal information and program integrity.

Communication Is Key

Much of the decline in the low-income rate among Canadian seniors in recent decades has been attributed to the existence of public pensions such as the CPP.

But many people still lack basic information about what to expect from the retirement income system and how they should prepare for their own retirement. The CPP will continue to improve and personalize its outreach programs and strive to communicate as directly as possible with its clients.

Contributors will receive their Statement of Contributions on an annual basis to help them assess their own situation, and there are plans for an online pension calculator to be introduced, enabling Canadians to calculate personal benefits and review retirement options. Contributors will also eventually be able to file requests for Statements of Contributions and address changes electronically.

The focus on client service will be underlined by a new service charter, setting out service standards that clients can expect. At the same time, clients will be asked to provide feedback to enable staff to provide service that is effective and tailored to their needs. A case-management approach will gradually be introduced to make contact and follow-up with clients both personal and assured.

In short, the focus will be on earlier and more personalized contact with clients, more timely follow-up and more active support for those wishing to return to work or to make the transition to retirement — and on providing the tools to support that service.

APPENDIX A
THE CANADA PENSION PLAN

FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2000

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The financial statements of the Canada Pension Plan have been prepared by management of Human Resources Development Canada in accordance with the accounting policies set out in Note 2 to the financial statements.

Management is responsible for the integrity and objectivity of the data in these financial statements, including the amounts which must, of necessity, be based on estimates and judgements. The financial information presented throughout the Annual Report is consistent with the financial statements.

In support of its responsibility, management has developed and maintains books of account, financial and management controls, information systems and management practices. These are designed to provide reasonable assurance as to the reliability of the financial information, and to ensure that the transactions are in accordance with the *Canada Pension Plan* and regulations, as well as the *Financial Administration Act* and regulations.

The Auditor General of Canada, the external auditor of the Canada Pension Plan, has conducted an independent audit of the financial statements in accordance with generally accepted auditing standards and has reported to the Minister of Human Resources Development.

Alan Winberg
Assistant Deputy Minister
Financial and Administrative Services

Jim Lahey
Associate Deputy Minister

Date

AUDITOR GENERAL OF CANADA VERIFICATEUR GÉNÉRAL DU CANADA

AUDITOR'S REPORT

To the Minister of Human Resources Development

I have audited the statement of net assets of the Canada Pension Plan as at March 31, 2000 and the statement of changes in net assets for the year then ended. These financial statements are the responsibility of the management of Human Resources Development Canada. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Canada Pension Plan as at March 31, 2000 and the changes in its net assets for the year then ended in accordance with the significant accounting policies set out in Note 2 to the financial statements.

L. Denis Desautels, FCA
Auditor General of Canada

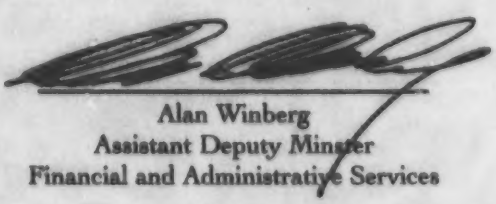
Ottawa, Canada
July 19, 2000

STATEMENT OF NET ASSETS AS AT MARCH 31 (IN MILLIONS OF DOLLARS)

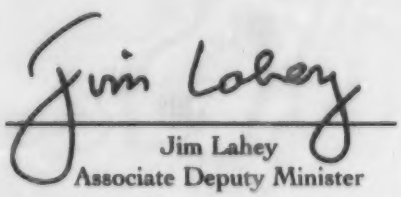
	2000	1999 (Note 3)
Assets		
Investments		
CPP Investment Fund – at cost (Note 4)	30,299	30,833
CPP Investment Board net assets (Note 5)	2,392	12
Cash and cash equivalents		
Deposit with Receiver General for Canada	6,261	5,447
Short-term investments	–	619
Receivables		
Contributions	1,170	1,005
Accrued interest	1,172	1,211
Régime des rentes du Québec	6	6
Beneficiaries (Note 6)	46	53
	41,346	39,186
Liabilities		
Accounts payable	32	24
Accrued pensions and benefits	53	62
	85	86
Net Assets	41,261	39,100
Net Assets, represented by:		
Canada Pension Plan Investment Fund	30,299	30,833
Transfers to Canada Pension Plan Investment Board	1,932	12
Accumulated net income from Investment Board's operations	460	–
Canada Pension Plan Account (Note 7)	6,261	6,066
Receivables, net of liabilities	2,309	2,189
Net Assets	41,261	39,100

The accompanying notes are an integral part of these financial statements.

Approved by Human Resources Development:



Alan Winberg
Assistant Deputy Minister
Financial and Administrative Services



Jim Lahey
Associate Deputy Minister

STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED MARCH 31
(IN MILLIONS OF DOLLARS)

	2000	1999 (Note 3)
Net assets, beginning of year	**39,100**	38,792
Increase in assets		
Contributions (Note 8)	**17,037**	14,924
Investment income (Note 9)	**4,238**	3,891
	21,275	18,815
Decrease in assets		
Pensions and Benefits (Note 10)		
Retirement	**12,902**	12,379
Survivors	**2,669**	2,563
Disability	**2,559**	2,585
Disabled Contributor's Child	**245**	249
Death	**222**	225
Orphan	**202**	202
	18,799	18,203
Administration costs (Note 11)	**315**	304
	19,114	18,507
Increase in net assets	**2,161**	308
Net assets, end of year	**41,261**	39,100

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2000

1. DESCRIPTION OF THE CANADA PENSION PLAN

a) Description of the CPP

The Canada Pension Plan (CPP) is a federal/provincial plan established by an Act of Parliament in 1965.

The CPP began operations in 1966. It is a compulsory and contributory social insurance program operating in all parts of Canada, except Quebec, which operates the Régie des rentes du Québec, a comparable program. The Plan's objective is to provide a measure of protection to workers and their families against the loss of earnings due to retirement, disability or death.

The Minister of Human Resources Development is responsible for the administration of the *Canada Pension Plan* (the CPP Act); the Minister of National Revenue is responsible for collecting contributions. The Minister of Finance and his provincial counterparts are responsible for setting CPP contribution rates, benefit levels and funding policy.

The financial activities of the Canada Pension Plan are recorded in the CPP Account (Note 7). The CPP Investment Fund (Note 4) holds the bond portfolio of the Plan, and the Plan's investments in capital markets are managed by the CPP Investment Board (Note 5). The financial transactions affecting the Account and the Investment Fund are governed by the CPP Act and regulations. The Investment Board's transactions are governed by the *Canada Pension Plan Investment Board Act* and the accompanying regulations.

As stated in the CPP Act, changes to this Act require the approval of at least two-thirds of the provinces having, in the aggregate, not less than two-thirds of the population of all included provinces.

b) Financing

CPP is financed by contributions and investment returns.

Employers and employees pay contributions equally to CPP. Self-employed workers pay the full amount.

CPP was designed initially to be financed on a pay-as-you-go basis, which means that the Plan would operate on a current basis with pensions and benefits being paid out of current contributions. With changes made to the Act in 1997, CPP is now intended to be funded on a "steady-state" basis – that is, combined contributions are planned to increase to 9.9% of pensionable earnings by 2003 and are then expected to level off.

From 1966 to 1986, the combined employer-employee contribution rate remained at 3.6% of pensionable earnings. In 1987, it was raised to 3.8% and has increased yearly by 0.2% to reach 5.6% in 1996. In 1997, 1998 and 1999, the combined contribution rate was increased by 0.4%, 0.4% and 0.6% respectively. In 2000, it was increased by 0.8% to reach 7.8%. The maximum combined contribution for 2000 was $2,660 (1999 – $2,373).

The CPP Act provides that an actuarial report shall be prepared every three years for purposes of the review of the financial state of the CPP by the Minister of Finance and his provincial counterparts. The Seventeenth Actuarial Report of the Chief Actuary of the Office of the Superintendent of Financial Institutions was tabled in the House of Commons in December 1998. Federal and provincial ministers of Finance concluded at the end of the Triennal Review process that the CPP's financial health is sound and that the 9.9% combined employee-employer contribution rate which will be reached in 2003 is expected to be sufficient to sustain the Plan in the face of an aging population.

c) Net assets of the Plan

The net assets of the Plan are composed of the deposit with the Receiver General for Canada, short term and long term investments in bonds and investments in capital markets managed by the CPP Investment Board. The net assets represent funds accumulated for the payment of pensions, benefits and administration costs. This amount does not cover the actuarial present value of accrued pensions and benefits. As at March 31, 2000, the net assets of the Plan are of $41.3 billion (1999 – $39.1 billion). This amount represents 2.2 times the total of pensions and benefits for the year 1999-2000.

d) Pensions and benefits

Retirement pensions – A retirement pension is payable to each contributor at age 60 or older, according to the provisions of the Act. The monthly amount is equal to 25% of the contributor's average monthly pensionable earnings during the pensionable period. The amount may be reduced or increased depending upon whether the contributor applies for a retirement pension before or after age 65. This adjustment cannot exceed 30%. The maximum monthly pension payable at age 65 in 2000 is $762.92 (1999 – $751.67).

Disability benefits – A disability benefit is payable to a contributor who is disabled, according to the provisions of the Act. The amount of the disability benefit to be paid includes a flat-rate portion and an amount equal to 75% of the earned retirement pension. The maximum monthly disability benefit in 2000 is $917.43 (1999 – $903.55).

Survivor's benefits – A survivor's benefit is payable to the surviving spouse of a deceased contributor, according to the provisions of the Act. For a spouse under the age of 65, the benefit consists of a flat-rate portion and an amount equal to 37.5% of the deceased contributor's earned retirement pension. A surviving spouse between the ages of 35 and 45 who is not disabled or who has no dependent children receives reduced benefits. For spouses aged 65 and over, the benefit is equal to 60% of the retirement pension granted to the deceased contributor. The maximum monthly benefit payable to a surviving spouse in 2000 is $457.75 (1999 – $451.00).

Disabled contributor's child and orphan benefits – According to the Act, each child of a contributor who is receiving disability benefits or who died is entitled to a benefit as long as the child is under the age of 18, or is between the ages of 18 and 25 and attending school full-time. The flat-rate monthly benefit in 2000 is $174.07 (1999 – $171.33).

Death benefits – According to the Act, a death benefit is a one-time payment to, or on behalf of, the estate of a contributor. The benefit amounts either to 10% of the maximum pensionable earning in the year of death or six times the monthly retirement pension granted to the deceased contributor, whichever is less. The maximum death benefit in 2000 is $2,500 (1999 – $2,500).

Pensions and benefits indexation – As required by the Act, pensions and benefits are indexed annually based on the Consumer Price Index for Canada. The rate of indexation for 2000 is 1.6% (1999 – 0.9%).

2. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of presentation

These financial statements present the net assets and the changes in net assets of the Canada Pension Plan. They do not provide information on the actuarial estimates required to meet future obligations of the CPP. The CPP Act does not require that the pensions and benefits be pre-funded.

The financial statements are prepared in accordance with relevant acts and regulations. They have been prepared on the accrual basis of accounting and they include amounts which must, of necessity, be based on management's best estimates and judgements.

The CPP, which is under joint control of the Government of Canada and participating provinces, is not considered to be part of the reporting entity of the Government of Canada. Accordingly, its financial activities are not consolidated with those of the Government.

b) Valuation of investments

Bonds are shown at cost, which is equal to the face value of the bonds at the time of purchase.

CPP Investment Board's investments are stated at fair value. Fair value is the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. Market prices for securities and unit values for pooled and mutual funds are used to represent fair value for the investments.

Short-term investments are valued at cost.

c) Contributions to the Plan include CPP contributions collected by the Canada Customs and Revenue Agency (CCRA) for the year, including receivables at year-end. Funds transferred by the CCRA are estimated and are subject to review and adjustments. Adjustments, if any, are recorded as contribution revenue in the year they are known.

d) Investment income recognition

Interest income is recorded in the year in which it is earned.

CPP Investment Board's net income from operations represents the total of income from interest, realized and unrealized gains and losses, less investment and administrative expenses. Unrealized gains and losses on investments held at year-end represent the change in the difference between fair value and cost of investments at the beginning and end of each year.

e) Pensions and benefits are recorded when payable and are presented net of pension and benefit overpayments established during the year.

f) **Administration costs** are recorded in the year to which they relate.

3. ACCOUNTING CHANGES

During the year, the Canada Pension Plan adopted the accrual basis of accounting for revenues and expenses, and prepared a complete set of financial statements including a statement of net assets and a statement of changes in net assets. These changes have been applied on a retroactive basis and the figures for 1999 have been restated.

The effect of the introduction of the accrual basis of accounting increased the net assets of the Plan as at March 31, 2000 by $2.3 billion (1999 – $2.2 billion). The result of changing the basis of accounting for the year ended March 31, 2000 increased revenue by $126 million (1999 – $89 million) and decreased expenses by $23 million (1999 – increase of $8 million) on the Statement of Changes in Net Assets.

4. INVESTMENT HELD BY THE CPP INVESTMENT FUND

The Canada Pension Plan Investment Fund was established in the accounts of Canada by the CPP Act to record the Plan's investments in bonds of the provinces, territories and Canada. The CPP Investment Fund's bond portfolio is administered by the federal Department of Finance.

Until the end of 1997, the investments in provincial, territorial and federal government bonds were made with the cash on hand in excess of the Plan's forecast three-month operating requirement. These bonds were not marketable and had a 20-year term (or less) as fixed by the Minister of Finance on the recommendation of the Chief Actuary of the Office of the Superintendent of Financial Institutions. The interest rate on the bonds was determined by the Minister of Finance based on the average yield to maturity of all outstanding Government of Canada obligations with terms of 20 years or more. When these bonds matured, funds not required for payment of pensions and benefits were re-invested in new bonds.

Beginning in 1998, a maturing provincial or territorial bond may be re-invested in a new bond only once for a term of 20 years, if both the issuer asks to do so and the operating balance is sufficient to pay current pensions and benefits. Excess funds not re-invested are transferred to the CPP Investment Board.

The re-invested bonds remain not marketable and bear interest at a rate fixed by the Minister of Finance. The interest rate is substantially the same as that the province would pay if it were to borrow the same amount for the same term through the issuance of a bond on the public capital markets.

All disposals of bonds are made, at maturity date, at face value. Interest earned on the investments is paid semi-annually to the CPP Account. The bonds are redeemable in whole or in part before maturity only at the option of the federal Minister of Finance where he considers the redemption necessary to pay pensions, benefits and administration costs. The bonds are then redeemed at face value.

At March 31, 2000, the balance in the Investment Fund was $30.3 billion at cost (1999 – $30.8 billion). The estimated fair value of the balance in the Investment Fund, including accrued interest, is $37.5 billion (1999 – $40.9 billion). This estimate is calculated by discounting the bonds' contractual cash flows at rates currently available at year end for similar investments.

The following schedule provides information on the disposals, re-investments and balance of the Investment Fund.

Bonds, at cost
(in millions of dollars)

	March 31, 1999	Disposals	Re-investments	March 31, 2000
Newfoundland	638	40	35	633
Prince Edward Island	141	8	7	140
Nova Scotia	1,173	74	74	1,173
New Brunswick	843	54	47	836
Quebec	97	7	6	96
Ontario	13,235	988	870	13,117
Manitoba	1,599	107	15	1,507
Saskatchewan	1,377	82	46	1,341
Alberta	3,995	219	–	3,776
British Columbia	4,287	282	245	4,250
Yukon Territory	4	–	–	4
Canada	3,444	18	–	3,426
	30,833	1,879	1,345	30,299

The following schedule presents the classification of bonds by maturity dates and the weighted average annual rate of return on bonds currently held.

(in millions of dollars)

	2000		1999	
	Investment at cost	Average yield	Investment at cost	Average yield
Investments maturing				
Within 1 year	1,973	12.66%	1,880	10.48%
1 – 5 years	9,534	13.79%	9,224	13.65%
Over 5 years	18,792	9.84%	19,729	10.50%
Total – Investments	30,299		30,833	
Weighted average yield on investments		11.27%		11.44%

5. NET ASSETS OF THE CPP INVESTMENT BOARD

The Canada Pension Plan Investment Board was established by an Act of Parliament in 1997. *The Canada Pension Plan Investment Board Act* came into force on April 1, 1998. The purpose of the Board is to invest the funds transferred by the CPP in a diversified portfolio of securities. The Board is designed to operate at arm's length from the government and it is required to be accountable to the public, the Minister of Finance and his provincial counterparts through regular reports.

The following schedule provides information on the Board's investments and net assets as at March 31.

(in millions of dollars)

	2000	1999
Canadian equities, at fair value		
Emerald Canadian Equity Funds	1,736	10
Canadian equity account	218	–
Non Canadian equities, at fair value		
Barclays Global Investors Canada Limited		
US Equity Index Fund (Canada)	220	1
EAFE Equity Index Fund B	219	1
Other assets, net of liabilities	(1)	–
Net Assets	2,392	12

As at March 31, 2000, the Regulations under the *Canadian Pension Plan Investment Board Act* require the Board's Canadian equities to substantially replicate the composition of one or more broad market indexes. Investments in the Canadian equity account are physical securities which, when combined with the Emerald Canadian Equity Funds, substantially replicate the composition of the Toronto Stock Exchange 300 Composite Index. Note 9 sets out the net income from operations of the Investment Board.

The CPP Investment Board audited financial statements for the year ended March 31, 2000 are publicly available and provide details concerning the Board's investment policy, its investments and portfolio return.

6. RECEIVABLES FROM BENEFICIARIES (in millions of dollars)

	2000	1999
Balance of pensions and benefits overpayments	75	82
Less: allowance for doubtful accounts	29	29
	46	53

Human Resources Development Canada has procedures to detect overpayments. During the year, overpayments totalling $30 million (1999 - $41 million) were established and remissions of debts totalling $13 million (1999 - $6 million) were granted. A further $24 million was recovered (1999 - $28 million).

7. CANADA PENSION PLAN ACCOUNT

The CPP Account was established in the accounts of Canada by the CPP Act, to record the contributions, interest, pensions, benefits and administration costs of the Plan. It also records the amounts transferred to or received from the CPP Investment Fund and the CPP Investment Board.

The balance of the CPP Account as at March 31 includes:

(in millions of dollars)

	2000	1999
Deposit with Receiver General for Canada	6,261	5,447
Short-term investments	–	619
	6,261	6,066

8. CONTRIBUTIONS

The Department of Finance estimates annual contributions based on a forecast of pensionable earnings. That forecast of pensionable earnings is based on a formula using many factors such as the growth in the number of contributors and in the average pensionable earnings. Although the Department of Finance uses recent data and statistics in the calculation, a variation may occur in the factors used to estimate those earnings. For example, a variation of one percentage point in the number of contributors or in the average pensionable earnings for 1999, would result, in each case, in a change of $162.5 million (1998 – $142 million) in estimated contributions.

The Canada Customs and Revenue Agency (CCRA) transfers contributions to the CPP based on the Department of Finance's estimate of contributions to be collected for a calendar year and on its own contribution collection schedule for the year. Actual pensionable earning and contribution amounts for 1999 and 2000 will only be known once the CCRA has processed all employers' and self-employed workers' declarations of contributions for 1999 and 2000.

Adjustments, if any, are recorded in the year in which they are known. The reimbursements for 1998 and preceding years, paid in 1999-2000, amounted to $138 million (1999 – reimbursement of $5 million).

9. INVESTMENT INCOME (in millions of dollars)

	2000	1999
Interest on bonds held by the CPP Investment Fund	3,483	3,592
Interest on deposit with the Receiver General for Canada at a weighted-average rate of 4.56% (1999 - 4.80%)	266	261
Interest on short term investment with Canada, at a weighted average rate of 4.71% (1999 - 4.87%)	49	38
Investment Board net income from operations		
Realized gains (net)	89	–
Interest income	15	–
Unrealized gains (net)	359	–
Less: Investment and administrative expenses	(3)	–
	460	–
	4,238	3,891

10. PENSIONS AND BENEFITS MISPAYMENTS

Given the nature of the Plan and the number of applicants and beneficiaries, from time to time overpayments and underpayments of pension and benefit payouts may be made.

Human Resources Development Canada undertook a study of the extent and nature of pension and benefit mispayments based on the 1998 payment year. It estimated through statistical extrapolation, the most likely value of undetected mispayments to be $31.3 million (1999– $55.6 million). This includes underpayments of $24.4 million (1999 – $36.6 million) and overpayments of $6.9 million (1999 – $19 million).

11. ADMINISTRATION COSTS (in millions of dollars)

	2000	1999
Pension and benefit delivery, accommodation and corporate services (Human Resources Development Canada)	242	211
Collection of contributions (Canada Customs and Revenue Agency)	58	76
Cheque issue and computer services(Public Works and Government Services Canada)	14	15
CPP Investment Board	–	1
Actuarial services(Office of the Superintendent of Financial Institutions)	1	1
	315	304

Administration costs of the Account represent the cost of services received from a number of federal government departments, an agency and a board. Those costs are charged to the Account in accordance with memoranda of understanding.

12. SUBSEQUENT EVENT

The 2000 Budget Implementation Bill received Royal Assent on June 29, 2000. It amends the CPP Act and permits provinces and territories to redeem their bonds held by the CPP Investment Fund prior to their maturity. The bonds could then be redeemed at current market value. This amendment to the CPP Act will come into force after receiving approval from the participating provinces.

APPENDIX B
DEPARTMENTAL
RESPONSIBILITIES

DEPARTMENTAL RESPONSIBILITIES

HUMAN RESOURCES DEVELOPMENT CANADA

HRDC's Income Security Programs Branch administers the Canada Pension Plan (*Canada Pension Plan*, Subsection 92(1)).

HRDC is responsible for:

- providing information about the Plan;
- determining benefit entitlement and continuing eligibility for benefits;
- maintaining records and accounts for clients and contributors;
- providing contributors with information on their earnings, contributions and projected benefits;
- managing an appeals process that includes support to the Office of the Commissioner of Review Tribunals and the Pension Appeals Board;
- assigning Social Insurance Numbers to individuals and maintaining a Social Insurance Register of those names and numbers;
- negotiating and administering International Social Security Agreements for clients living outside Canada and for new Canadians;
- detecting overpayments; and
- managing accounts receivable.

HRDC Corporate Services provides financial and administrative services, including security, internal audit, human resource services, systems, communications, strategic policy, program evaluation and legal services. These services support operations across the country that deliver services to CPP clients.

CANADA CUSTOMS AND REVENUE AGENCY (CCRA)

CCRA's main activity on behalf of the CPP involves the determination and collection of contributions (*Canada Pension Plan*, Subsection 92(2)) and related activities.

CCRA is responsible for:

- administering Part I of the CPP legislation, which provides for the collection of contributions from employees, employers and the self-employed. These activities make up about seven percent of the total funds collected by CCRA;
- providing reports on the earnings and contributions of contributors, as well as statistical and other information;
- providing rulings regarding CPP coverage and contribution requirements;
- providing contributor information to the CPP;
- reconciling T-4s and investigating any discrepancies;
- maintaining records for remittances, assessments and deposit funds;
- managing an appeals process on contribution-related matters; and
- providing system and administrative support.

The cost of these services is determined by a formula involving a periodic, detailed cost survey, which measures direct, indirect, and overhead costs.

PUBLIC WORKS AND GOVERNMENT SERVICES CANADA

The primary role of Public Works and Government Services Canada (PWGSC) in relation to the CPP is to issue benefit payments (*Canada Pension Plan*, Section 93).

PWGSC is responsible for:

- issuing payments on behalf of the CPP;
- developing, maintaining and operating supporting information systems to process information on contributor earnings, benefit payments, and program statistics; and
- providing accommodation and property management services.

DEPARTMENT OF FINANCE

The Department of Finance leads the review of the Plan every three years (*Canada Pension Plan*, Subsection 113.1(1)). The review team is composed of federal and provincial Finance Ministers.

Finance is responsible for:

- leading negotiations with the provinces and all other aspects of the statutory review of the CPP, which can result in changes to the Plan, including contribution rates;
- managing the CPP Investment Fund, which is invested in securities of provincial and territorial governments, provincial Crown agencies, or the Government of Canada, in accordance with the provisions of the CPP.

CPP INVESTMENT BOARD

The CPP Investment Board (CPPIB) manages funds that are not immediately needed to pay benefits (*Canada Pension Plan*, Subsection 111(2), *Canada Pension Plan Investment Board Act*). It is managed independently of the CPP by a small team of senior investment and business executives. The CPPIB Annual Reports are available at http://www.cppib.ca.

OFFICE OF THE SUPERINTENDENT OF FINANCIAL INSTITUTIONS

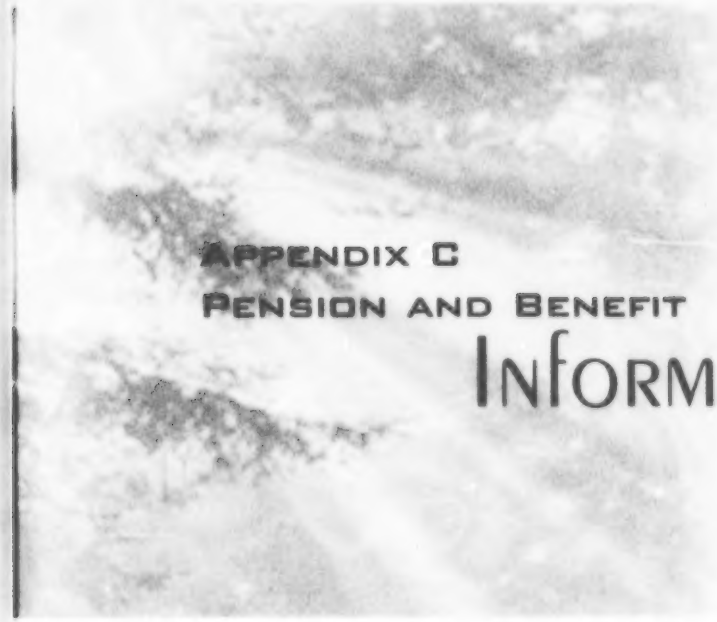
Actuarial services are provided by the Chief Actuary of the Office of the Superintendent of Financial Institutions (OSFI) (*Canada Pension Plan*, Section 115).
The Chief Actuary is responsible for:

- preparing reports on the financial status of the CPP, for tabling by the Minister of Finance in Parliament every three years in accordance with the CPP legislation;
- preparing estimates on proposed changes to the Plan's provisions for HRDC, the Department of Finance, and provincial governments; and
- calculating the effects of any new legislation on the CPP, as requested by the Minister of Finance.

AUDITOR GENERAL OF CANADA

The Auditor General is responsible for auditing the annual financial statements of the CPP (*Canada Pension Plan*, Subsections 112(3) and (4)).

The Canada Pension Plan legislation can be found at:
http://canada.justice.gc.ca/STABLE/EN/Laws/Chap/C/C-8.html



APPENDIX C
PENSION AND BENEFIT
INFORMATION

Pension and Benefit Information

RETIREMENT BENEFITS

Eligibility

- Following the contributor's 60th birthday
- If under 65, the month after the contributor has completely or substantially stopped working

Benefit Rates

- Based on the individual's contributions to the Plan
- Benefits are actuarially adjusted by 0.5 percent, up to a maximum of 30 percent, for each month the contributor is either over or under 65 at the start of the pension (this adjustment is made to reflect a longer or shorter period of time that a particular person receives his/her retirement pension)

Assignment of Retirement Pensions

In certain circumstances, spouses in a continuing marriage or common-law relationship can receive an equal share of the retirement pension earned by both parties during their life together. Both must be at least 60 and have applied for their retirement pensions.

DISABILITY BENEFITS

Eligibility

Disability benefits

- Beneficiaries must:
  - be disabled according to CPP legislation **and**
  - be between the ages of 20 and 65 **and**
  - meet minimum contributory requirements

Children's benefits

- Paid on behalf of the dependent children of the disabled beneficiary if children are:
  - less than 18 **or**
  - between 18 and 25 and in full-time attendance at school or university

Benefit Rates

Disability benefits

- Consist of a monthly flat-rate amount and an amount based on the contributions of the applicant
- At the age of 65, a disability benefit is automatically converted to a retirement pension

Children's benefits

- Consist of a flat-rate monthly benefit paid on behalf of the dependent children of the disabled beneficiary
- Children may receive a maximum of two children's benefits

A contributor is considered disabled under the CPP when his/her physical or mental disability is both severe and prolonged. "Severe" means that the person is prevented from working regularly at any job. "Prolonged" means that the condition is long-term or may result in death.

SURVIVOR BENEFITS

Eligibility

Survivor benefits

- The deceased must have contributed a specified minimum amount to the CPP
- The common-law or legal spouse of the deceased contributor may be eligible for a survivor pension
- Eligibility and the rate of payment are determined by
  - contributions made by the contributor during his/her lifetime
  - the age of the surviving spouse
  - whether or not the spouse is disabled
  - whether or not the spouse supports dependent children of the deceased contributor
- Children of a deceased contributor
  - The natural or adopted children in the care and control of the deceased contributor at the time of death, may be eligible for the children's benefit if they are:
    - less than 18 or
    - between 18 and 25 and in full-time attendance at school or university

Benefit Rates

Survivor

- Only one survivor pension is payable to the surviving spouse
- If survivor is widowed (or predeceased) more than once, the larger of the entitlements is paid
- Survivor and disability benefits or survivor and retirement benefits may be combined to a specified maximum
- Children may receive a maximum of two children's benefits

Children of a deceased contributor

- A flat-rate monthly benefit is paid to the dependent children of the deceased contributor

Death Benefit

- Paid upon death to the deceased contributor's estate or the person responsible for the funeral expenses
- A lump-sum payment equal to six months worth of the deceased contributor's "calculated" retirement pension, up to a maximum of $2,500 as of December 31, 1997

Feedback FORM

THE ANNUAL REPORT OF THE CANADA PENSION PLAN — IS IT GIVING YOU WHAT YOU NEED?

The CPP Annual Report is designed to help Canadians understand the role of the Canada Pension Plan and how it is managed. It describes developments during the past fiscal year that affect the Plan and gives an accurate picture of the financial status as of March 31, 2000. And it gives a glimpse of where the Plan is headed and what steps are being taken to make sure it will continue to be there for future generations.

We are interested in hearing what you have to say about our report and how we can make it more useful to readers. Please take the time to fill in the brief questionnaire below, circling your responses. Then fax this sheet back to us at (613)-954-6729.

1. What is your purpose in reading the CPP Annual Report?

- To obtain general information about the CPP
- To do research for studies or private business
- To assist in counselling Canadians on their retirement finances
- To assist clients in a medical context
- To find out about the recent changes to the CPP

2. What sort of CPP information interests you?

- General information about the CPP, such as benefits and eligibility criteria
- Disability benefits information
- CPP financial information, such as investments and expenditures

3. Was the information you needed easy to find in the report?

☐ YES ☐ NO

4. Which would you prefer to receive?

- An executive summary of the Annual Report
- A full report
- Notification of the report's availability and the web site location

5. **How can we make this report more useful to you?**
(Write your comments here.)